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52nd Legislature

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BUDGET ANALYSIS 1993 BIENNIUM VOL. I

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BUDGET ANALYSIS

1993 BIENNIUM

Presented to the 52nd Legislature

Volume I

Submitted by

The Office of the Legislative Fiscal Analyst

Helena, Montana

January 1991



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HELENA, MONTANA 59620
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January, 1990

Members of the Fifty-Second Legislature
Members of the Legislative Finance Committee

In accordance with the provisions of Section 5-12-302, MCA, I submit for your consideration an in-depth analysis of the Executive Budget for the 1993 biennium. This analysis is designed to assist the legislature in its constitutional duties of appropriating funds, balancing the state's budget, and ensuring strict accountability of all funds.

The staff of the Office of Legislative Fiscal Analyst look forward to being of service to the legislature during the 1991 session. We are available to assist all legislators in obtaining information related to fiscal issues. Please feel free to call on us!

We thank the Office of Budget and Program Planning and state agency staff for their cooperation during the budget analysis process. They were very helpful in providing needed information and answering questions. We also thank the Publications and Graphics Bureau staff for their efficient printing of this document.

Lastly, I want to thank the LFA staff for the thousands of extra hours they spent in preparing this analysis. Their dedication and hard work are a credit to the legislature and the people of Montana.

Respectfully submitted,

A handwritten signature in cursive script, reading "Teresa Olcott Cohea".

Teresa Olcott Cohea
Legislative Fiscal Analyst

**BUDGET ANALYSIS
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INTRODUCTION

The Budget Analysis, 1993 Biennium is designed to assist legislators and the public in understanding and making policy decisions concerning state government revenues and expenditures. In the 1993 biennium, this involves approximately \$3.35 billion of expenditures, more than 14,000 FTE, and over 60 state agency budgets.

To simplify the difficult and time-consuming tasks of reviewing these budgets, the LFA has tried to present relevant information in a thorough, yet concise and clear fashion. Following is a "road map" to the two volume Budget Analysis.

Summary

The first section of Volume I provide an overview of the entire budgeting process. These pages include a discussion of the major points of the Executive Budget, discuss anticipated collections from general fund and school equalization revenue sources, and provide information on state expenditures for public schools. The summary section also contains: 1) charts showing FTE levels and an analysis of the pay plan proposal contained in the Executive Budget; 2) a discussion of the major trust funds, their balances, and the allocation of interest earnings; 3) a list of requested fiscal 1991 supplementals; and 4) a comparison of the Executive Budget for each agency compared to the LFA current level by fund type. Lastly, the "Budget Basics" section provides a detailed discussion of the "nuts and bolts" details used in preparing the budget, such as inflation factors, fixed costs, and vacancy savings.

Current Level Budget Analysis

Sections A through F contain a "current level" budget for each program in state government. This current level budget projects costs of existing programs and existing services in the 1993 biennium. It is based on fiscal 1990 actual operating expenses, fiscal 1991 personal services costs, historical and requested equipment needs, and funding ratios as

required under existing state and federal law or as approved by the 1989 legislature. It contains funds for anticipated changes in human service caseloads, university enrollment, and K-12 enrollment. The LFA current level budget is not a recommended budget. It is presented to allow legislators a "base line" from which to review and judge changes made in the Executive Budget. The narrative and table for each program show fiscal 1990 actual expenditures, fiscal 1991 appropriations, and projected 1993 biennium costs under current programs, practices, and laws. The narrative also provides analyses of funding issues within the program. Lastly, the narrative describes any budget modifications (expansions or funding changes) included in the Executive Budget for the program.

Executive Budget Comparison

At the beginning of each agency, a comparison of the Executive Budget and the LFA current level is provided to assist legislators and the public in identifying recommended changes in the Executive Budget. To simplify this comparison, the Budget Analysis, 1993 Biennium compares current level budgets. In previous years, the LFA budget analyses compared the entire Executive Budget--both current level and budget modifications--to the LFA current level.

Elected Official/Board of Regents Budget Modifications

Historically, the LFA budget analysis has discussed only those budget modifications included in the Executive Budget. Since elected officials and the Board of Regents often present additional budget modification requests to the legislature, the Budget Analysis, 1993 Biennium contains summaries of these additional modifications that the legislature will be asked to consider. As the following table shows, the general fund budget modifications requested by elected officials and the Board of Regents far exceed the amount included in the Executive Budget.

INTRODUCTION

Table 1
Budget Modification Requests
1993 Biennium
(In Millions)

	<u>FTE</u>	<u>General Fund</u>	<u>All Funds</u>
Executive Budget	387.47	\$49.800	\$224.100
Elected Officials			
Judiciary		0.484	0.575
Secretary of State	5.0	0.463	0.463
State Auditor	2.0	0.444	0.567
Dept. of Justice	60.2	3.974	5.307
Crime Control	5.0	0.428	0.428
Superintendent of Public			
Instruction	7.5	5.253	62.101
Board of Regents	<u> </u>	<u>71.466</u>	<u>64.839*</u>
Total Elected			
Officials/Board of Regents	79.7	\$82.512	\$134.280

*Requests \$6.6 million reduction in other funds for a net general fund cost of \$71.466 million.

Reorganizations

The Executive Budget proposes two significant reorganizations of state agencies. Analyses of the fiscal impacts of the proposed reorganization of the natural resource agencies is provided on pages C-1 through C-5 and of the proposed creation of the Department of Transportation on pages A-207 through A-208.

Long Range Planning

Section G provides an overview of the Executive Budget recommendations for the

Long Range Building program (both bonded and cash programs), oil overcharge funds, cultural and aesthetics grant programs, resource indemnity trust interest accounts, and other capital outlay requests.

Legislative Agencies

Budgets for legislative agencies are presented as approved by their governing committees. The budget narratives are prepared primarily by each legislative agency. The legislative agency directors hope you find the narratives useful and welcome your visit to clarify any part of their budgets.

JOINT SUBCOMMITTEES OF HOUSE APPROPRIATION AND SENATE FINANCE AND CLAIMS COMMITTEES

GENERAL GOVERNMENT AND HIGHWAYS

Legislative Auditor	Board of Crime Control
Legislative Fiscal Analyst	Highway Traffic Safety
Consumer Counsel	Revenue
Legislative Council	Highways
Environmental Quality Council	State Auditor
Governor's Office	Military Affairs
Commissioner of Political Practices	Administration
Judiciary	State Compensation Mutual Insurance Fund
Secretary of State	Public Employees' Retirement Board
Justice	Teachers' Retirement Board

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House

Representative Joe Quilici (Chair)
Representative Tom Zook
Representative Mary Lou Peterson

Senate

Senator Larry Stimatz (Vice-Chair)
Senator Larry Tveit
Senator Harry Fritz

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Lois Steinbeck
Clayton Schenck

HUMAN SERVICES

Labor and Industry	Health and Environmental Sciences
Social and Rehabilitation Services	Department of Family Services

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Representative Dorothy Bradley (Chair)
Representative John Cobb
Representative John Johnson

Senate

Senator Mignon Waterman (Vice-Chair)
Senator Tom Keating
Senator Dennis Nathe

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Carroll South
Sandra Whitney
Taryn Purdy

JOINT SUBCOMMITTEES OF HOUSE APPROPRIATION AND SENATE FINANCE AND CLAIMS COMMITTEES

NATURAL RESOURCES

Fish, Wildlife, and Parks	State Lands
Livestock	Public Service Regulation
Natural Resources and Conservation	Commerce
Agriculture	

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House

Senate

Representative "Berv" Kimberley (Chair)	Senator Esther Bengtson (Vice-Chair)
Representative Ed Grady	Senator Cecil Weeding
Representative Jerry Nisbet	Senator Gerry Devlin

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Terri Perrigo
Roger Lloyd

INSTITUTIONS AND CULTURAL EDUCATION SUBCOMMITTEE

Dept. of Institutions	Montana Arts Council
Montana Library Commission	Montana Historical Society

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House

Senate

Representative Wm. "Red" Menahan (Chair)	Senator Dick Manning (Vice-Chair)
Representative Dorothy Cody	Senator Eleanor Vaughn
Representative Chuck Swysgood	Senator Gary Aklestad
	Senator Tom Beck

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Skip Culver
Sandra Whitney

JOINT SUBCOMMITTEES OF HOUSE APPROPRIATION AND SENATE FINANCE AND CLAIMS COMMITTEES

EDUCATION SUBCOMMITTEE

Commissioner of Higher Education	Bureau of Mines
University System	Fire Services Training School
Postsecondary Vocational-technical Centers	Advisory Council for Vocational Education
Agricultural Experiment Station	Board of Public Education
Cooperative Extension Service	Office of Public Instruction
Forestry Experiment Station	School for the Deaf and Blind

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House

Representative Ray Peck (Chair)
Representative Larry Grinde
Representative Mike Kadas

Senate

Senator Greg Jergeson (Vice-Chair)
Senator Don Bianchi
Senator H. W. "Swede" Hammond

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Pam Joehler
Skip Culver

LONG-RANGE PLANNING

Long Range Building Program	Resource Indemnity Trust Interest Accounts
Culture and Aesthetics Grants	Overcharge Funds
Park and Land Acquisition	

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House

Representative Mary Ellen Connelly (Chair)
Representative Bob Thoft
Representative Francis Bardanouve

Senate

Senator Bob Hockett (Vice-Chair)
Senator Ethel Harding
Senator J. D. Lynch

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Jim Haubein

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OFFICE OF THE LEGISLATIVE FISCAL ANALYST

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University System
Community Colleges
Agricultural Experiment Station
Cooperative Extension Service
Forestry Experiment Station
Bureau of Mines

Robert (Skip) Culver
Board of Public Education
Office of Public Instruction
Fire Services Training School
School for the Deaf and Blind
Montana Council for Vocational
Education
Vocational-Technical Centers

HUMAN SERVICES

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Social and Rehabilitation Services

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INSTITUTIONS AND CULTURAL EDUCATION

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State Library Commission
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NATURAL RESOURCES

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Fish, Wildlife, and Parks
Livestock
State Lands
Agriculture
Public Service Regulation
Commerce

Terri Perrigo
Natural Resources

GENERAL GOVERNMENT AND HIGHWAYS

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Administration
State Fund
Public Employees' Retirement System
Teachers' Retirement System
Secretary of State
Military Affairs
Judiciary

Clayton Schenck
Legislative Auditor
Legislative Fiscal Analyst
Consumer Counsel
Legislative Council
Environmental Quality Council
Commissioner of Political Practices
Governor's Office
State Auditor
Justice
Board of Crime Control
Highway Traffic Safety
Highways

LONG-RANGE PLANNING

Jim Haubein
Long-Range Building Program
Culture and Aesthetics Grants
Park Acquisition
Resource Indemnity Trust Interest
Accounts
Oil Overcharge

REVENUE AND TAXES

Terry Johnson
Jim Standaert

SCHOOL FOUNDATION

Taryn Purdy

DATA PROCESSING

Terry Johnson
Mary Longmaid

OVERVIEW OF EXECUTIVE BUDGET

General Fund Spending

The Executive Budget proposes to increase general fund spending for state agencies above fiscal 1991 appropriated levels by 4.3 percent in fiscal 1992 and 6.5 percent in fiscal 1993.

The Executive Budget limits the growth in general fund spending by three methods: 1) anticipating slower growth in human service caseloads; 2) proposing the closure of Galen and the "downsizing" of the Montana Developmental Center; and 3) transferring over \$9 million of expenditures from the general fund to other funds.

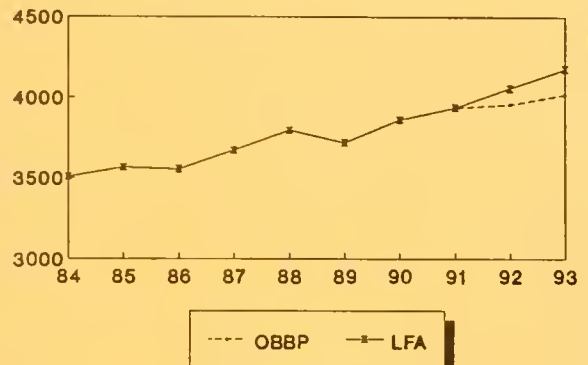
Reduced Human Service Caseloads

As a result of the lower caseload projections and higher estimates of cost-savings measures, the Executive Budget includes \$14.3 million less general fund for the following human service programs than the LFA current level.

Medicaid costs

Medicaid costs are one of the state's fastest growing expenditures. During the period fiscal 1984 through 1990, general fund costs of medicaid grew 6.75 percent per year. While the Executive Budget projects that these costs will continue to grow during the 1993 biennium, it includes \$5.4 million less general fund biennial costs for medicaid reimbursements than the LFA current level. These differences are in two key areas. The Executive Budget includes \$2.4 million less for nursing home costs. The LFA nursing home costs are based on 3 percent annual growth above the fiscal 1991 level. The Executive Budget includes less for nursing home care in the next biennium than the LFA estimates will be spent in fiscal 1991. Graph 1 shows the difference in anticipated caseload in the two budgets. The Executive Budget also anticipates that general fund medicaid costs will be reduced \$1.6 million during the 1993 biennium due to various cost-cutting measures.

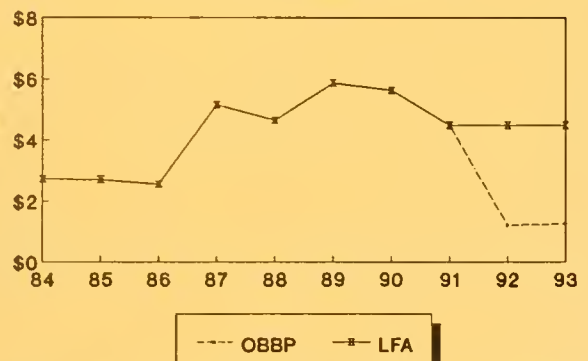
Graph 1
Executive/LFA Estimates
Monthly Nursing Care Recipients



State Medical

The Executive Budget includes \$6.5 million less general fund during the 1993 biennium for the state medical program than the LFA current level. As Graph 2 shows, this is a dramatic reduction in projected costs. The Executive Budget anticipates that the legislature will enact legislation reducing the scope of the program. The LFA budget is based on the current law and administration of the program.

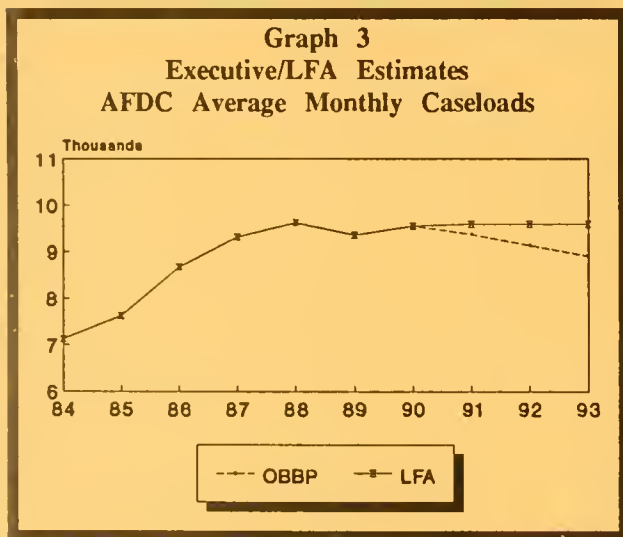
Graph 2
Executive/LFA Projections
State Medical Expenditures
(In Millions)



OVERVIEW OF EXECUTIVE BUDGET

AFDC Caseloads

The Executive Budget contains \$1.9 million less general fund (\$7.0 million all funds) for Aid to Families with Dependent Children (AFDC) than the LFA current level budget. The Executive Budget projects that AFDC caseload will decrease during the 1993 biennium due to federal welfare reform. As Graph 3 shows, AFDC caseloads declined slightly in fiscal 1989, but have climbed since then. The average monthly caseloads during the first three months of fiscal 1991 were higher than in either fiscal 1989 or fiscal 1990. The LFA current level budget projects that AFDC caseloads will be slightly higher during the 1993 biennium than they were during the 1991 biennium.



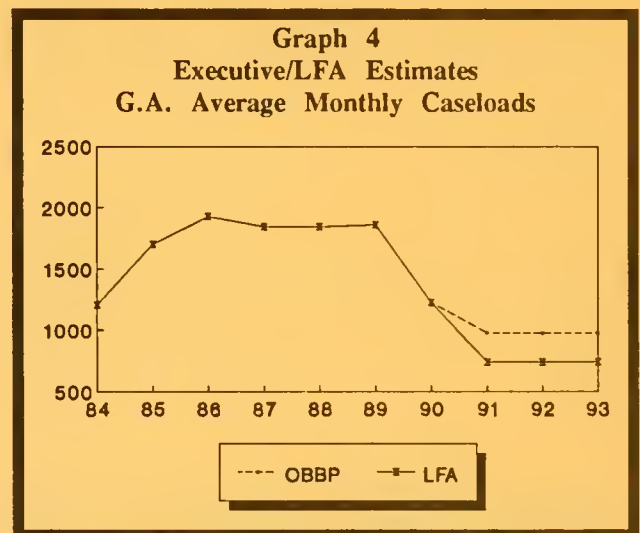
Foster Care

The Executive Budget includes \$1.5 million less general fund for foster care than the LFA current level because it assumes that caseloads will not increase during the 1993 biennium. Since foster care caseloads have increased an average 6 percent per year from fiscal 1985 through fiscal 1989, the LFA budget includes a 6 percent increase per year during the 1993 biennium.

GA Caseload

In one area, the Executive Budget projects higher caseloads than the LFA.

As Graph 4 shows, the LFA anticipates that the sharp decline in general assistance (GA) caseload due to the legislation passed by the 1989 legislature will continue in fiscal 1991, leveling off in the 1993 biennium. The data for the first three months of fiscal 1991 appear to support this: average monthly caseload for these months is less than any month in fiscal 1990. The Executive Budget projects a slower decline in caseload, resulting in a \$960,000 higher general fund budget for GA benefits during the 1993 biennium.



Dept. of Institutions' Changes

The Executive Budget reduces the general fund cost of the Department of Institutions by closing the Galen campus at the Montana State Hospital and significantly reducing the population at the Montana Developmental Center. While these reductions are partially offset by increased expenditures in chemical dependency services in community programs and correctional facilities and by increased developmental disability group home costs, the Executive Budget projects a \$9.7 million biennial savings as a result of these changes. The LFA current level budget continues these programs as they are currently authorized.

OVERVIEW OF EXECUTIVE BUDGET

Funding Switches

The Executive Budget limits general fund growth by transferring functions that are currently supported by general fund to other funds. Table 1 shows the major proposed "funding switches" contained in the Executive Budget.

Table 1
Executive Budget Funding Switches
1993 biennium
(In Millions)

<u>Agency</u>	<u>Biennial Total Switched</u>
State Lands	\$7.505
Agriculture	1.333
State Auditor	<u>0.173</u>
Total	\$9.011

Increased Fees and Taxes

The Executive Budget emphasizes user fee funding. In several agencies, user fees are increased to pay for proposed program expansions or to fund current level operations. The Executive Budget also includes one tax increase. It proposes to raise \$23.0 million during the biennium with a tax increase on retirement income. Table 2 shows the \$34.91 million of increased fees and taxes included in the Executive Budget.

Table 2
Tax and Fee Increases
in Executive Budget
1993 Biennium
(In Millions)

<u>Proposed Tax Increase</u>	<u>Biennial Revenue</u>
------------------------------	-------------------------

Retirement Income Taxation	\$23.20
----------------------------	---------

Proposed Fee Increases

DFWP Hunting Fees	\$ 5.17
Nursing Home Fee	2.20
Drivers' Lic. Reinstatement	0.40
Brand Fees	0.12
Pesticide Retailer/Registration	1.15
Forest Fire Assessment Fees	0.86
State Timber Sales Fee	0.09
Landfill User Fees	0.34
Air Quality Fees	0.59
Drinking Water Review Fees	0.49
Park Entrance Fees	<u>0.30</u>

Total	\$34.91
-------	---------

While the Executive Budget does not recommend specific increases in DFWP fees, fee increases as recommended by the Fish and Game Commission are necessary to fund the DFWP expenditure level contained in the Executive Budget.

Budget Modifications

While the Executive Budget reduces current level general fund spending, it proposes a high level of budget modifications. For the 1993 biennium, the Executive Budget includes \$224.1 million and 387.47 FTE in budget modifications. Of that amount, \$49.8 million is general fund.

Since the Executive Budget generally included costs above the fiscal 1991 appropriation as budget modifications, in some cases funds requested as budget modifications in the Executive Budget are included in the LFA current level budget. For example, the Executive Budget defines variable costs (such as food and medical expenses) for anticipated increases in prison population as a budget modification,

OVERVIEW OF EXECUTIVE BUDGET

while the LFA includes these costs in the current level.

However, in most cases, the budget modifications would substantially increase state spending. The following table shows the major budget modifications included in the Executive Budget.

Table 3
Executive Budget Modifications
1993 Biennium
(In Millions)

Agency	General Fund	Total Funds
SRS	\$19.2	\$70.2
University System	8.2	8.2
Institutions	7.8	12.6
Family Services	5.4	7.7
Revenue	1.2	1.6
State Lands	1.1	3.1
Justice	0.7	2.6
Highways		47.5
DHES	0.5	15.7
DNRC		9.5
DFWP		5.7
Commerce	0.4	13.4
Other agencies	5.3	26.3
Total	\$49.8	\$224.1

The most costly budget modifications are:

♦\$9.1 million general fund (\$32.3 million all funds) to increase medicaid provider rates. This would increase obstetric/pediatric rates (\$2.7 million general fund), nursing home rates (\$4.8 million general fund); hospital rates (\$1.2 million general fund), dental reimbursements (\$0.1 million general fund); and ambulance provider rates (\$0.3 million general fund). The estimated cost of these rate increases is based on the Executive Budget's projected caseloads in the 1993 biennium, which are lower than the LFA estimates. If the caseloads anticipated in the LFA budget materialize, the total costs of the budget modifications will be significantly higher.

♦\$3.0 million general fund (\$6.7 all funds) for developmentally disabilities, primarily for community-based program expansion.

♦\$2.9 million (\$4.6 million all funds) for the "Kid's Count" initiative. This initiative is designed to improve preventative health care services provided to Montana's low income pregnant women and children, in an attempt to lower the long-term costs of high-risk births and long-term institutionalization.

♦\$8.0 million general fund for University System priorities identified by the Board of Regents.

♦\$3.5 million general fund (\$12.5 million all funds) to provide residential psychiatric treatment to children and adolescents. This program was started as a pilot project by the 1989 legislature.

Higher Operating Expenses

The Executive Budget used the fiscal 1991 appropriation as the "base" for projecting operating expenses during the 1993 biennium. The LFA current level budget used fiscal 1990 actual expenditures. Since actual expenditures are lower than the appropriation, the Executive Budget includes at least \$8.3 million in additional operating expenses due solely to the use of this appropriated base.

Deferred Costs

The Executive Budget proposes several programs that would have minimal cost in the 1993 biennium but would have significant costs during the 1995 biennium. Table 4 shows the 1993 cost of these proposals and the estimated 1995 biennium costs. Following the table is a brief description of each proposal.

OVERVIEW OF EXECUTIVE BUDGET

Table 4
Deferred Costs in Executive Budget
(In Millions)

<u>Proposal</u>	<u>1993 Biennium Cost</u>	<u>1995 Biennium Cost</u>
LRBP Bonds	\$0.80	\$8.0
Operation of New Facilities		
Men's Prison	0	2.8
Women's Prison	0	3.1
New U-System Buildings		0.9
Big Sky Dividend	4.3	10.3
Pay Plan	10.0	N/A

Bonding Program

The Executive Budget includes only \$800,000 debt service on the proposed new \$50 million general obligation bonds during the 1993 biennium because it anticipates the \$20 million bond for the prison will be issued in fiscal 1993 and the \$30 million bond for construction at the university units will be issued in fiscal 1994. In the 1995 biennium, biennial debt service costs for these two issues will be approximately \$8.0 million. (See pages G-1 through G-5).

Operating Costs of New Facilities

The Department of Institutions estimates that personal service and operating costs for the new facilities at the men's prison will be \$2.8 million during the 1995 biennium. The biennial estimated lease purchase costs for the women's prison are \$1.47 million, with approximately \$200,000 higher operating costs than at the current facility.

Big Sky Dividend

The Executive Budget estimates that interest earnings will decrease only \$4.2 million during the 1993 biennium due to the diversion of \$37.6 million from the permanent coal tax trust fund to the Big Sky Dividend program. However, the revenue loss resulting from this diversion will increase each biennium.

Pay Plan

The Executive Budget proposes that agencies absorb the major portion of the cost of the 1993 biennium pay plan increase in their current level budgets. In the 1995 biennium, these pay increases will be included in current level personal services costs, which have traditionally been funded in both the Executive and LFA current level budgets. Thus, personal services costs will be substantially higher during the next biennium, before the 1995 pay plan increase is even considered.

Declining Fund Balances

The Executive Budget for the 1993 biennium does not address the rapid decline in the highway account or the growing unfunded liability in the state health insurance program and the university system health insurance program fund.

The Executive Budget is balanced, in part, by spending \$57 million of the highways account fund balance. If the requested construction plan and the requested budget modifications are approved, the balance in the account will decline from \$88 million at the beginning of the 1993 biennium to \$31 million at the end of the biennium. The existing revenues and fund balance will be insufficient to continue the current level program during the 1995 biennium. The 1993 legislature will have to drastically reduce the department's expenditures or increase revenues to keep the fund solvent. (See pages A-218 through A-220).

Like health insurance funds throughout the country, the two health insurance programs operated by the state are experiencing financial difficulties. Since fiscal 1989, expenditures from the university health insurance program have exceeded revenues. The Commissioner of Higher Education's office predicts that the unfunded liability for the program will grow from \$1.3 million in fiscal 1991 to \$8.6 million by the end of the 1993 biennium (see pages F-22 through F-25). Similarly, expenditures from the state health insurance program have exceeded revenues since 1988. The

OVERVIEW OF EXECUTIVE BUDGET

Department of Administration estimates that the program will go from a \$1.6 million positive reserve at the end of the 1991 biennium to a \$9.3 million unfunded liability at the end of the 1993 biennium, if the legislature approves the increases in state contributions proposed in the Executive Budget (\$15 per month per employee in fiscal 1992 and \$30 per month in fiscal 1993). If this increase is not approved, the program will have a projected \$16.8 million unfunded liability by the end of the 1993 biennium. (See pages A-134 through A-138.)

Reorganizations

The Executive Budget includes two significant reorganizations: 1) a proposal to reorganize DHES, DNRC, and DSL; and 2) one to create a Department of Transportation. The fiscal impact of these reorganizations are analyzed on pages C-1 through C-5 and A-207 through A-208. These reorganizations are designed to achieve program objectives, not reduce staff or costs. In fact, both reorganizations add costs. The Executive Budget includes \$214,574 in

"one-time" costs and \$192,800 in ongoing costs for the proposed reorganization of natural resource agencies. In addition, indirect cost rates will need to be renegotiated with federal agencies if the proposed reorganization occurs. This may increase state costs. The Executive Budget includes \$135,189 for "one-time" costs associated with the creation of the Department of Transportation.

Total Funds

Section 17-7-123, MCA, requires the Executive Budget to include "an analysis of the actual and projected receipts, disbursements, and solvency of each accounting entity within each fund type..." The Governor's Executive Budget for the 1993 biennium does not comply with this statutory requirement. It includes summary information on general fund expenditures only and does not show recommended total expenditures from state special revenue funds, federal funds, or other fund types. As a result, the Executive Budget does not show its total recommended budget from all funds.

GENERAL FUND SUMMARY & COMPARISON

Budget Outlook

The revenue picture facing the 1991 legislature is more optimistic than the legislature has seen since 1983. Based on current revenue estimates, there will be sufficient revenue under existing law during the 1993 biennium to fund current level general fund programs and the existing school foundation program, leaving a surplus of \$98.5 million. This improved budget outlook is due to increased income tax collections resulting from federal tax reform, modest growth in personal and corporate income, and higher oil prices.

In contrast, the adverse economic conditions in fiscal 1986-1989--drought, falling oil and coal prices, and slow wage and salary income growth--created a much different budget outlook for previous sessions.

♦ In the 1985 legislative session, falling oil prices caused the Governor to issue a revised budget two weeks into the legislative session. The budget was balanced using \$28 million in "one-time" accounting adjustments and fund transfers. Continued revenue declines after the legislature adjourned resulted in a January 1986 executive order reducing appropriations by 2 percent.

♦ In the June 1986 special session, the legislature had to cut budgets by 5 percent and transfer funds to cover a \$100 million shortfall in fiscal 1987. Due to continued revenue declines, appropriations were reduced an additional 2 percent in November 1986 by executive order.

♦ In the 1987 session, the legislature faced a \$100 million "gap" between revenues and current level expenditures. The Executive Budget proposed \$75 million in fund transfers and \$24 million in new or continued "one-time" taxes in order to fund a budget which included no increases for state employee pay or the foundation program.

♦ In the 1989 legislative session, the Executive Budget proposed \$38 million in

fund transfers to fund a "no-growth" budget.

The 1991 legislature faces a more optimistic budget picture. For the first time in six years, current revenue estimates indicate that there will be sufficient revenue to fund current level expenditures.

However, the projected revenues will not be sufficient to fund all requests for new and expanded programs; all requests for full inflationary adjustments in state employee pay, agency operations, provider payments, university funding, and foundation program; or significant tax cuts. Most of the increased revenue available is needed to fund rising medicaid costs and higher-than-anticipated school funding costs.

The mildly optimistic revenue picture depends on continued strength in income and corporation tax collections. Personal and corporation taxes account for over 60 percent of general fund revenue collections in the 1993 biennium. Any downturn in the economy which reduces Montana workers' incomes and the profits of Montana businesses quickly translates into revenue shortfalls in the state treasury. Currently, Montana is enjoying modest growth in wage and salary income and corporate profits. But this welcome recovery--after the past few difficult years--can be easily shattered if a full-blown recession grips the nation.

1993 Biennium Surplus

The Office of the Legislative Fiscal Analyst projects a \$98.5 million surplus in the state general fund at the end of the 1993 biennium, based on current law revenues and a current level budget.

The Executive Budget projects a \$38.3 million general fund surplus at the end of the 1993 biennium because it proposes a \$70.2 million increase in spending above current level, includes \$16.0 million of revenue adjustments, and projects slightly lower fund balances.

GENERAL FUND SUMMARY & COMPARISON

Fund Balances

The LFA projects a \$8.8 million higher ending fund balance in fiscal 1991 than the Executive Budget for two reasons:

1) it uses the final fiscal 1990 ending fund balance (\$89.038 million) as prepared by the Department of Administration. The Executive Budget does not use this final, official balance; and

2) it projects that expenditures will be \$8.58 million less than the Executive Budget based on revised fiscal 1991 expenditure levels.

Revenues

There is very little difference between total 1993 biennium current law revenue estimates in the LFA and Executive Budgets--\$2.8 million over the biennium or less than one-quarter of one percent difference. While estimates for individual revenue sources differ, total anticipated revenue are almost identical.

The Executive Budget proposes legislation that will increase general fund revenues by a net \$16.0 million during the biennium. These increases include \$23.2 million in additional income tax revenue paid by retirees, \$2.2 million in fees paid by nursing facilities, \$4 million in "one-time" profits if state liquor stores are privatized, and transfer of the highway patrol retirement fund balance to the general fund. This \$29.8 million in additional revenue from tax and fee increases, fund transfers, and privatization is offset by \$8.3 million in proposed tax reductions and a \$3.6 million in revenue loss from the proposed Big Sky Dividend program.

Expenditures

The Executive Budget proposes a \$70.2 million increase in spending over the LFA current level. This increase is in three areas:

1) \$26.5 million more in the general appropriations act. While the Executive Budget includes a \$23.3 million lower current level budget for the 1993 biennium than the LFA, it includes nearly \$50 million in general fund budget modifications and program expansions. As a result, it proposes a \$26.5 million net increase in general appropriations during the 1993 biennium.

2) \$10 million for the pay plan proposal. The Executive Budget proposes an average 4.5 percent per year pay increase for state employees and an increase in the state contribution for health insurance premiums. The Executive Budget contains only \$10 million general fund to fund these increased costs. It proposes the remaining cost be absorbed within state agencies' budgets through "organizational efficiencies" and vacancy savings.

3) \$22 million less in reversions. Because the Executive Budget proposes that state agencies absorb most of the cost of the proposed pay plan within current level budgets, it anticipates that agencies will not revert any appropriation authority at the end of each year. The LFA current level budget includes reversions at the historical level.

4) \$10.4 million more transferred to SEA. The Executive Budget projects that \$240.8 million general fund will need to be transferred to the school equalization account (SEA) to fund the existing foundation schedules and guaranteed tax base program. The LFA current level budget projects that a transfer of \$230.4 million will be needed. This difference is chiefly due to differences in the projected fiscal 1991 ending fund balance. The Executive Budget does not include \$5.2 million of lottery revenue that was deposited in the SEA during fiscal 1991 and projects \$5.5 million lower revenue collections from federal mineral leasing, common schools interest and income, and miscellaneous revenues during fiscal 1991.

GENERAL FUND SUMMARY & COMPARISON

Continuing Fiscal Imbalance

The Executive Budget proposes to spend \$22.8 million more in the 1993 biennium than anticipated revenue collections.

While this "gap" between proposed expenditures and anticipated revenues is

less than in recent biennia, it will continue the fiscal imbalance that has prevailed throughout the last decade. During the period 1982-1991, expenditures were greater than revenue collections in all five biennia, as Table 1 shows.

Table 1
General Fund Revenues and Expenditures
(In Millions)

<u>Biennium</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Revenue Over/(Under) Difference</u>
1983	\$633.8	\$680.5	\$(46.7)
1985	694.8	737.7	(42.9)
1987	696.2	758.1	(61.9)
1989	725.8	759.1	(33.3)
1991	880.3	884.1	(3.8)
1993*	1,160.7	1,183.5	(22.8)

*Executive Budget

As the following graph shows, limiting general fund expenditures to the LFA current level would keep expenditures within existing revenues and provide a small increase in the general fund balance. However, spending at the level contained in the Executive Budget will result in a continued fiscal imbalance during the 1993 biennium, with expenditures higher than revenues.

If the Executive Budget for the 1993 biennium is adopted, this fiscal imbalance will grow during the 1995 biennium for two reasons:

1) One-time Revenue. Some of the revenue anticipated in the Executive Budget is "one-time": \$4 million liquor store profits and a \$0.4 million fund balance transfer. Since these revenues

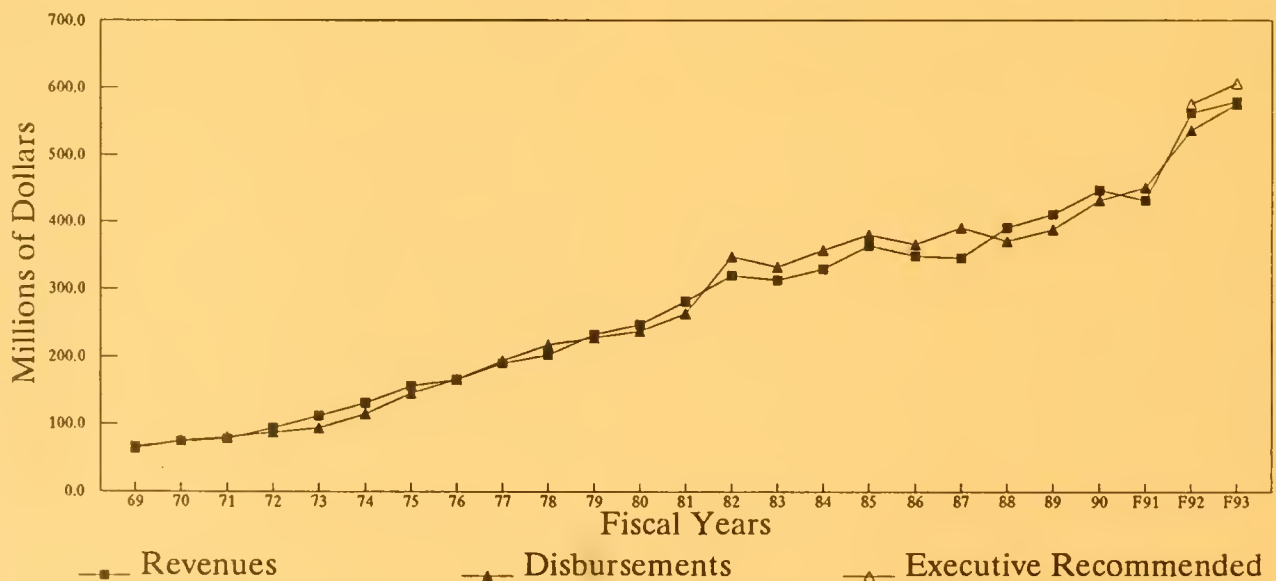
will not be available in the 1995 biennium, the fiscal imbalance between ongoing revenues and ongoing expenditures will be larger.

2) Deferred costs in the 1995 biennium. The Executive Budget proposes several programs and program expansions that will not be fully operational until the 1995 biennium. For example, the 1993 biennium cost of the proposed \$50 million general obligation bonds will be less than \$800,000, while the 1995 biennium cost will be over \$8 million. Similarly, the Executive Budget estimates the general fund revenue loss due to the Big Sky dividend will be \$3.6 million during the 1993 biennium and \$9.1 million in the 1995 biennium. Budgeting for these deferred costs during the 1995 biennium will increase the fiscal imbalance.

GENERAL FUND SUMMARY & COMPARISON

General Fund Summary Revenue and Disbursement Statistics Figures In Millions

F Y	Annual Revenue	Biennium Revenue	Percent Change	Annual Disbursements	Biennium Disbursements	Percent Change
69	\$66.707299			\$63.790000		
70	74.626788			75.616000		
71	78.010512	\$152.637300		81.299944	\$156.915944	
72	95.176800			87.956650		
73	112.569763	207.746563	36.10%	94.739472	182.696122	16.43%
74	131.756689			115.543830		
75	156.641727	288.398416	38.82%	146.247584	261.791414	43.29%
76	166.345787			166.340893		
77	189.879345	356.225132	23.52%	194.300258	360.641151	37.76%
78	203.244549			218.093767		
79	233.360791	436.605340	22.56%	228.763427	446.857194	23.91%
80	248.131743			238.167938		
81	282.526748	530.658491	21.54%	264.551569	502.719507	12.50%
82	320.259309			347.901270		
83	313.575015	633.834324	19.44%	332.610274	680.511544	35.37%
84	330.305498			357.387046		
85	364.521837	694.827335	9.62%	380.358776	737.745822	8.41%
86	349.541482			366.815431		
87	346.689859	696.231341	0.20%	391.324548	758.139979	2.76%
88	391.152206			370.853289		
89	411.723287	725.774493	4.24%	388.270121	759.123410	0.13%
90	447.961774			432.323202		
F91	432.309000	880.270774	21.29%	451.800000	884.123202	16.47%
F92	562.287000			536.941000		
F93	579.599000	1141.886000	29.72%	576.307000	1113.248000	25.92%



GENERAL FUND SUMMARY & COMPARISON

Estimated General Fund Balance In Millions						
	Actual Fiscal 1990	Estimated Fiscal 1991	Estimated Fiscal 1992	Estimated Fiscal 1993	Estimated FY 90-91	Estimated FY 92-93
Beginning Fund Balance	\$67.234	\$89.038	\$69.886	\$95.232	\$67.234	\$69.886
Receipts						
Estimated Receipts	447.962	432.309	562.287	579.599	880.271	1141.886
Total Available	\$515.196	\$521.347	\$632.173	\$674.831	\$947.505	\$1,211.772
Disbursements						
General Appropriations	432.323	409.662	417.944	423.591	841.985	841.535
Foundation Program Support			100.680	129.762		230.442
Property Tax Reimbursement		18.349	18.500	18.500	18.349	37.000
Pay Plan						
Supplementals		15.641			15.641	
Continuing Appropriations		3.693			3.693	
Debt Service		10.955	10.817	10.954	10.955	21.771
Paed Bill		4.500		4.500	4.500	4.500
TRANS Interest						
Reversions		(11.000)	(11.000)	(11.000)	(11.000)	(22.000)
Anticipated Disbursements	\$432.323	\$451.800	\$536.941	\$576.307	\$884.123	\$1,113.248
Adjustments	5.969				5.969	
Foundation Program Reversion						
Residual Equity Transfer	0.196	0.339			0.535	
Ending Fund Balance	<u>\$89.038</u>	<u>\$69.886</u>	<u>\$95.232</u>	<u>\$98.524</u>	<u>\$69.886</u>	<u>\$98.524</u>
Estimated School Equalization Fund Balance In Millions						
	Actual Fiscal 1990	Estimated Fiscal 1991	Estimated Fiscal 1992	Estimated Fiscal 1993	Estimated FY 90-91	Estimated FY 92-93
Beginning Fund Balance	\$15.309	\$20.592	\$31.966	(\$100.680)	\$15.309	\$31.966
Receipts						
Estimated Receipts	279.964	398.457	259.320	263.494	678.421	522.814
Education Trust Transfer						
Total Available	\$295.273	\$419.049	\$291.286	\$162.814	\$693.730	\$554.780
Disbursements						
Current Level Schedules	287.393	347.887	347.473	348.691	635.280	696.164
Gauranteed Tax Base		44.382	44.493	44.565	<u>44.382</u>	<u>89.058</u>
Anticipated Disbursements	\$287.393	\$392.269	\$391.966	\$393.256	\$679.662	\$785.222
Adjustments	(1.776)	5.186			3.410	
Residual Equity Transfer	14.488				14.488	
Ending Fund Balance	<u>\$20.592</u>	<u>\$31.966</u>	<u>(\$100.680)</u>	<u>(\$230.442)</u>	<u>\$31.966</u>	<u>(\$230.442)</u>

ECONOMIC OVERVIEW

Introduction

The State of Montana's budget for the 1993 biennium depends upon the current and future economic condition of the state, nation, and world economies. These conditions not only affect tax receipts, they dictate the costs of goods and services purchased by state government. Clearly, economic assumptions are a vital component in formulating a biennial budget.

The key economic variables that affect state government receipts and disbursements are Montana total personal income, Montana employment levels, inflation rates, energy prices, and interest rates.

In the past, Montana's economy paralleled the national economy, with some lags. However, for the past decade, Montana's economic upturns and downturns have been more pronounced than in the national economy. This is due in part to Montana's small manufacturing sector and its reliance on the energy sector: oil, coal, and natural gas exploration and production.

The Fifty-first Legislature appropriated funds to the Office of Budget and Program Planning (OBPP) to contract with an economic reporting and forecasting firm. Wharton Econometrics, the firm selected for this purpose, provides short and long-term econometric forecasts to the OBPP and Legislative Fiscal Analyst (LFA). These forecasts were incorporated in the revenue forecasts whenever appropriate.

ECONOMIC OVERVIEW

Personal Income

Montana's total personal income is defined as labor income, transfer payments, dividends, interest and rents, less personal contributions for social security. This variable is critical in budget development because of its impact on state government tax receipts and disbursements. Total personal income not only limits the growth in government disbursements, it also reflects the ability of the people of Montana to purchase food, clothing, automobiles, and other items. Collections of personal income tax, corporate income tax, and many other taxes, such as liquor and insurance, are affected by personal income levels.

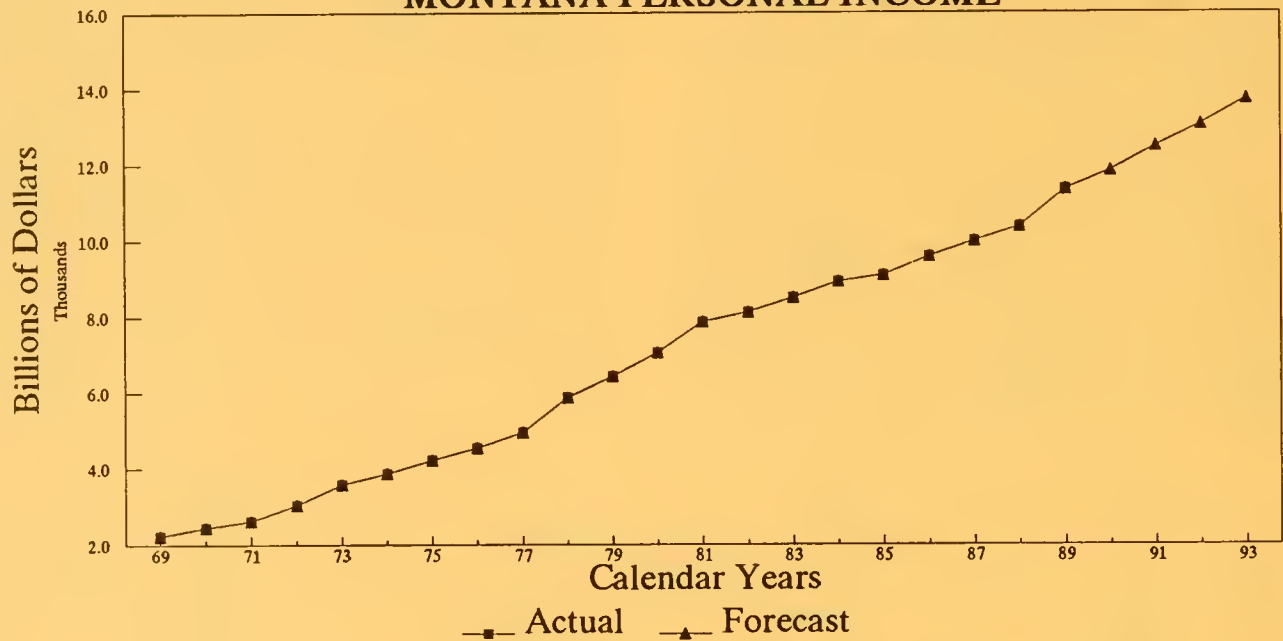
From 1970 to 1989, total personal income has increased 361 percent in Montana versus 429 percent nationally. The state's per capita income for 1989 was \$14,078 compared with the national figure of \$17,596. As shown in Table 1, Montana's total personal income is expected to continue to lag national income growth. This trend is premised on slow economic growth, the general trend to limit wage concessions, and the continued shift in employment from basic industries to the service sectors.

The following tables summarize personal income statistics for Montana and the United States.

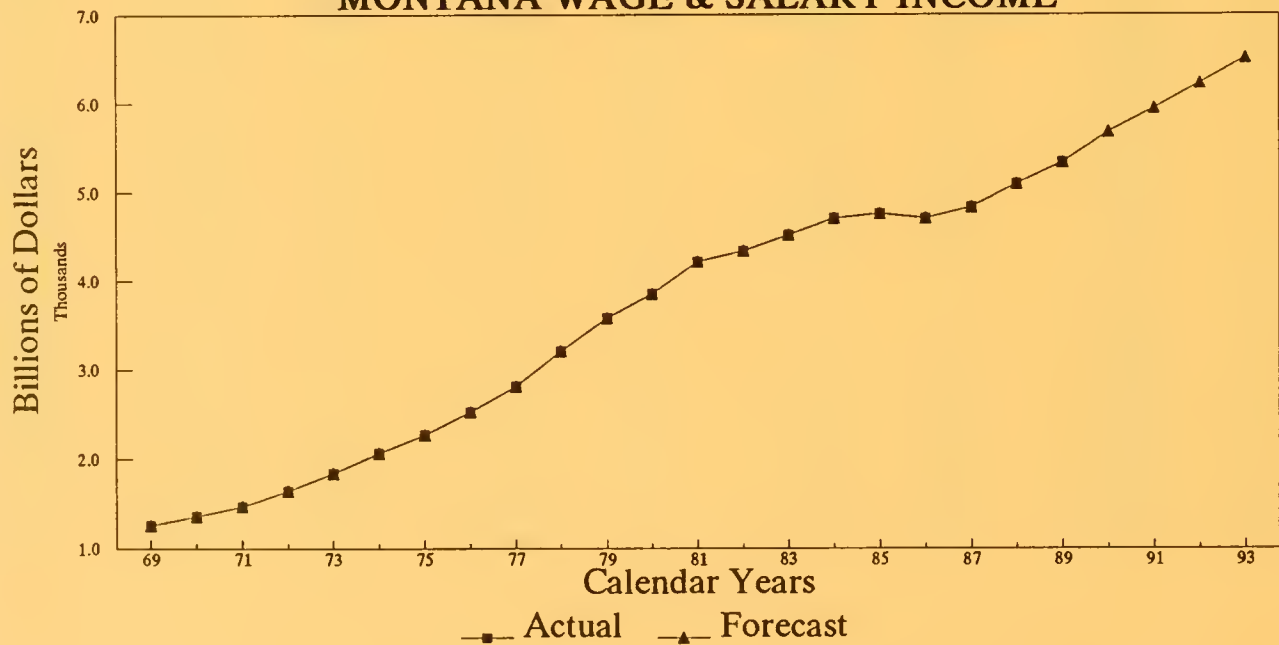
Year	Montana Personal Income	Percent Change	Montana Disposable Income	Percent Change	Montana Wage&Salary Income	Percent Change	US Personal Income	Percent Change
A 69	\$2,226.095		\$1,935.482		\$1,259.333		\$766.522	
A 70	2459.435	10.48%	2138.547	10.49%	1358.985	7.91%	825.534	7.70%
A 71	2613.661	6.27%	2272.771	6.28%	1470.691	8.22%	888.536	7.63%
A 72	3044.809	16.50%	2648.041	16.51%	1640.168	11.52%	976.181	9.86%
A 73	3580.328	17.59%	3114.219	17.60%	1837.878	12.05%	1095.289	12.20%
A 74	3866.476	7.99%	3363.341	8.00%	2065.305	12.37%	1204.899	10.01%
A 75	4221.699	9.19%	3672.622	9.20%	2266.550	9.74%	1308.482	8.60%
A 76	4543.154	7.61%	3952.523	7.62%	2518.970	11.14%	1447.002	10.59%
A 77	4951.869	9.00%	4308.428	9.00%	2805.484	11.37%	1602.863	10.77%
A 78	5859.822	18.34%	5099.155	18.35%	3209.329	14.39%	1806.968	12.73%
A 79	6428.461	9.70%	5594.433	9.71%	3583.736	11.67%	2028.510	12.26%
A 80	7039.551	9.51%	6126.727	9.51%	3858.892	7.68%	2254.076	11.12%
A 81	7858.105	11.63%	6839.798	11.64%	4220.470	9.37%	2514.231	11.54%
A 82	8118.020	3.31%	7066.233	3.31%	4340.394	2.84%	2663.432	5.93%
A 83	8503.906	4.75%	7402.424	4.76%	4521.138	4.16%	2834.385	6.42%
A 84	8922.334	4.92%	7766.981	4.92%	4714.358	4.27%	3101.163	9.41%
A 85	9092.290	1.90%	7915.061	1.91%	4764.534	1.06%	3317.545	6.98%
A 86	9587.581	5.45%	8346.612	5.45%	4711.331	-1.12%	3519.364	6.08%
A 87	9979.768	4.09%	8688.341	4.09%	4832.286	2.57%	3754.396	6.68%
A 88	10361.148	3.82%	9020.665	3.82%	5092.167	5.38%	4058.655	8.10%
A 89	11341.579	9.46%	9875.035	9.47%	5336.400	4.80%	4368.129	7.63%
F 90	11832.556	4.33%	10302.908	4.33%	5676.187	6.37%	4651.300	6.48%
F 91	12470.605	5.39%	10858.973	5.40%	5941.054	4.67%	4902.100	5.39%
F 92	13041.216	4.58%	11356.286	4.58%	6226.144	4.80%	5235.800	6.81%
F 93	13711.575	5.14%	11940.559	5.14%	6508.997	4.54%	5608.100	7.11%

ECONOMIC OVERVIEW

MONTANA PERSONAL INCOME



MONTANA WAGE & SALARY INCOME



ECONOMIC OVERVIEW

Employment

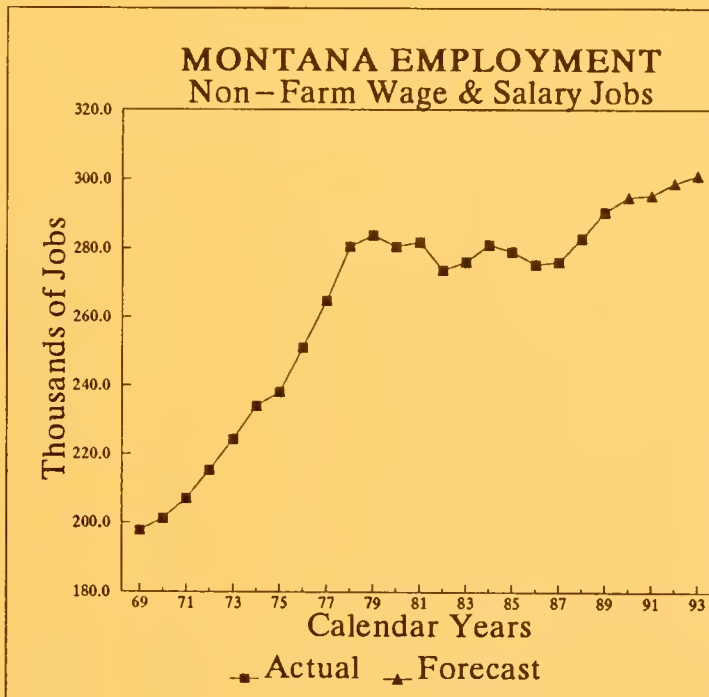
Total state employment measures the ability of the state's economic base to provide jobs for its residents.

When forecasting state revenues, nonfarm wage and salary employment is used as a proxy for employment levels. Even though this statistic does not include all employment, it does provide a consistent indicator of the relevant labor market.

Employment levels in the state affect total personal income and are also indicative of the state's business activity. The relationship among personal income, consumer spending, and, ultimately, corporate profits explains why personal income, corporate income, and sumptuary taxes are affected by changes in this variable.

From 1970 to 1989, nonfarm wage and salary employment grew by about 44 percent or 89,200 jobs. Almost all of this increase was in the wholesale/retail trade and service sectors. Traditionally, these jobs have been at the lower end of the pay scale. In the 1980's, the manufacturing, mining, construction, and transportation sectors have experienced decreased employment. These jobs tended to have higher than average salaries.

The table below provides historical and forecasted values for nonfarm wage and salary employment. Employment is expected to increase at about one-half the 1.9 percent annual historical rate observed since 1970. Most of the growth is expected in the services sector, offsetting declines in some of the basic industries.



C Y	Total Non-Farm Jobs	Percent Change	Total Service Jobs	Percent Service
69	197,700		79,100	40.01%
70	201,300	1.82%	81,800	40.64%
71	207,100	2.88%	85,400	41.24%
72	215,400	4.01%	90,800	42.15%
73	224,400	4.18%	96,700	43.09%
74	234,000	4.28%	101,200	43.25%
75	238,200	1.79%	103,400	43.41%
76	251,100	5.42%	111,400	44.36%
77	264,800	5.46%	116,400	43.96%
78	280,400	5.89%	124,800	44.51%
79	283,900	1.25%	127,700	44.98%
80	280,400	-1.23%	127,400	45.44%
81	281,800	0.50%	129,000	45.78%
82	273,700	-2.87%	128,200	46.84%
83	276,000	0.84%	131,400	47.61%
84	281,100	1.85%	135,500	48.20%
85	279,100	-0.71%	135,200	48.44%
86	275,400	-1.33%	134,700	48.91%
87	276,000	0.22%	137,700	49.89%
88	282,900	2.50%	142,700	50.44%
89	290,500	2.69%	149,200	51.36%
90	294,800	1.48%	154,100	52.27%
91	295,300	0.17%	153,900	52.12%
92	298,900	1.22%	155,400	51.99%
93	301,000	0.70%	156,200	51.89%

ECONOMIC OVERVIEW

Inflation

Inflation indices measure the rate of price escalation and/or decrease for goods and services. The most commonly used statistic is the Consumer Price Index (CPI) which is based on prices of food or clothing, shelter, fuel, drugs, transportation fares, doctors' and dentists' fees, and other items.

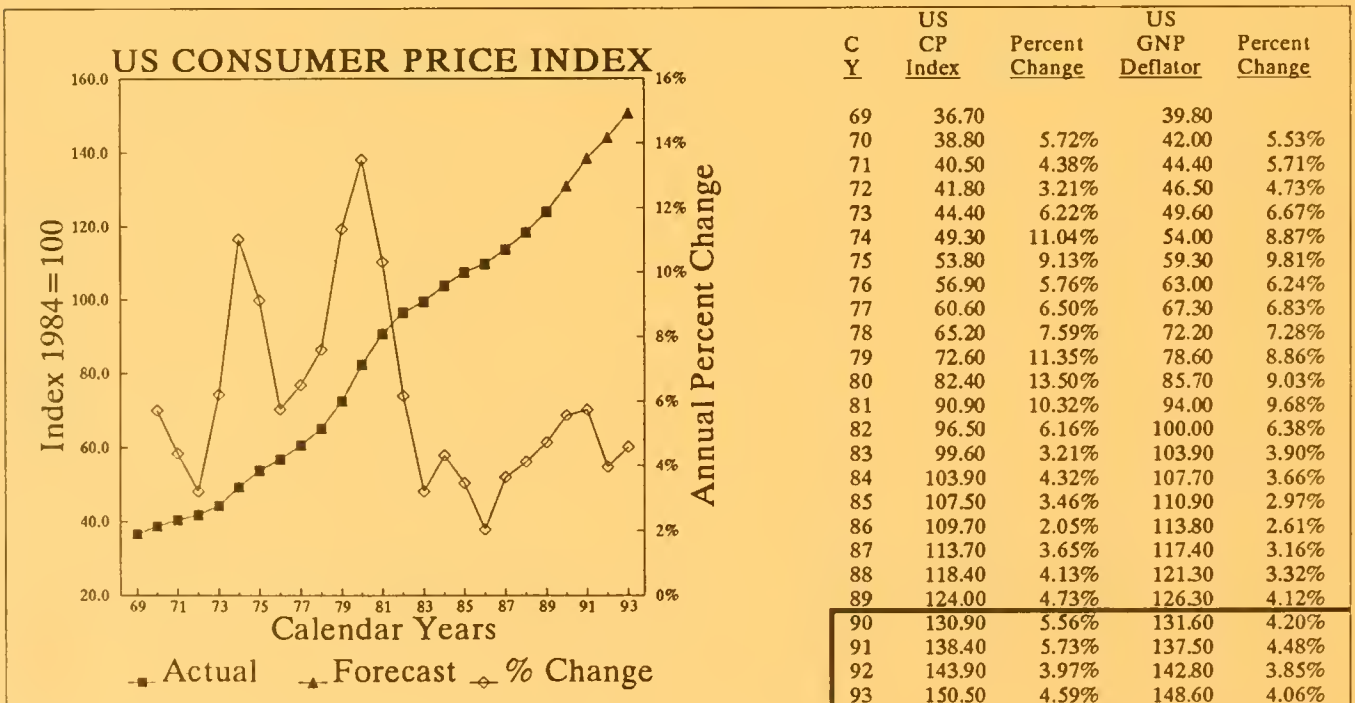
During high inflationary periods, consumption of goods and services may decline. This not only decreases employment levels but may discourage business activity because of higher operating costs. Low inflation may result in higher consumption, increased employment, and greater business opportunities.

Inflation rates have an impact on most revenue sources. The sources that are especially affected include personal

income taxes, public institution reimbursements, and corporation taxes.

An annual inflation rate of 5.5 to 5.7 percent is expected during calendar years 1990 and 1991, due primarily to higher oil prices. However, this rate is forecast to decline to a more moderate rate during calendar years 1992 and 1993 of roughly 4.0 to 4.6 percent. This outlook anticipates: 1) wage negotiations will be sensitive to the need for reasonable compensation because of a highly competitive world market; 2) oil prices and related energy prices will retreat from the current levels, provided there is a peaceful end to the Mid-East crisis; and 3) food prices will be relatively stable throughout the forecast period.

The table below lists two measures of inflation as published by Wharton Econometrics. These national averages are provided because indices for Montana are not available.



ECONOMIC OVERVIEW

Energy Prices

Montana has a vast potential for oil, coal, and natural gas exploration and extraction. Because of this potential and our current level of natural resource taxation, energy prices play a critical role in the budgetary process. Oil, coal, and natural gas severance taxes are directly affected by energy prices.

Oil

Oil well-head prices are expected to peak at \$23.73 per barrel during calendar year 1991 and then drift downward during calendar years 1992 and 1993. However, prices are not expected to reach pre-Mid-East crisis levels throughout the forecast period. This assumption is based on a resolution to the Gulf crisis but a continued price premium due to market instability and supply volatility.

Natural Gas

Under the Natural Gas Policy Act of 1978, prices for all new gas was deregulated on January 1, 1985. As was anticipated, prices decreased even with deregulation, due to contract renegotiations, lower import prices primarily from Canada, and the competitive prices of other fuels. Average natural gas well-head prices are expected to increase throughout the forecast period. By calendar 1991, natural gas surpluses are expected to

begin diminishing and world oil prices are expected to be higher. With a more limited supply and more competitively priced fuels, well-head prices should begin to rise.

Coal

The coal industry in the United States and Montana is heavily dependent upon demand for electrical power. Slow economic growth at both the state and national levels, combined with energy conservation, may contribute to slower electrical usage growth.

With low demand and the competitive prices of other fuels, coal prices have remained soft. These conditions, in conjunction with royalty deductions approved by the Forty-eighth Legislature, have caused coal prices to decrease since calendar 1983.

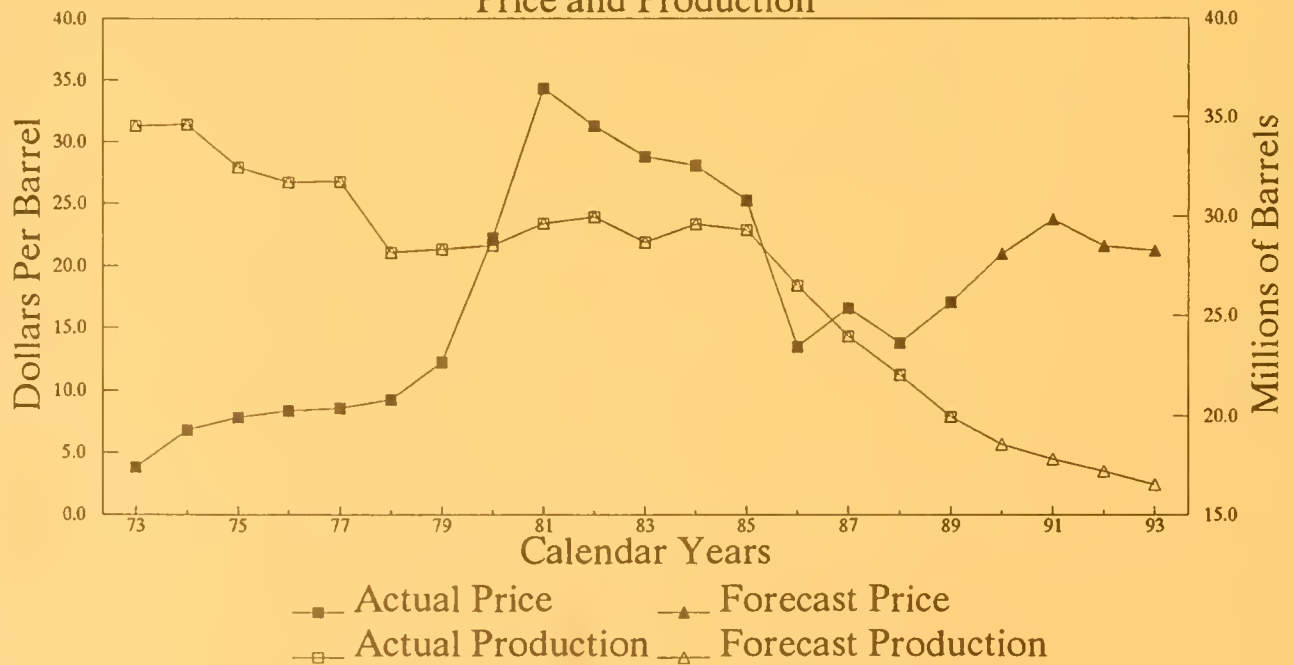
Since most of Montana's coal is sold to utilities under long-term contracts, prices generally increase by inflation indices specified in the contracts. Because of the soft market, it is assumed coal companies will hold prices relatively constant to maintain competitiveness with other fuels.

The following tables provide historical and projected energy prices for oil, coal, and natural gas. Historical data reflects data reported on tax returns, while projections are as developed by the LFA.

ECONOMIC OVERVIEW

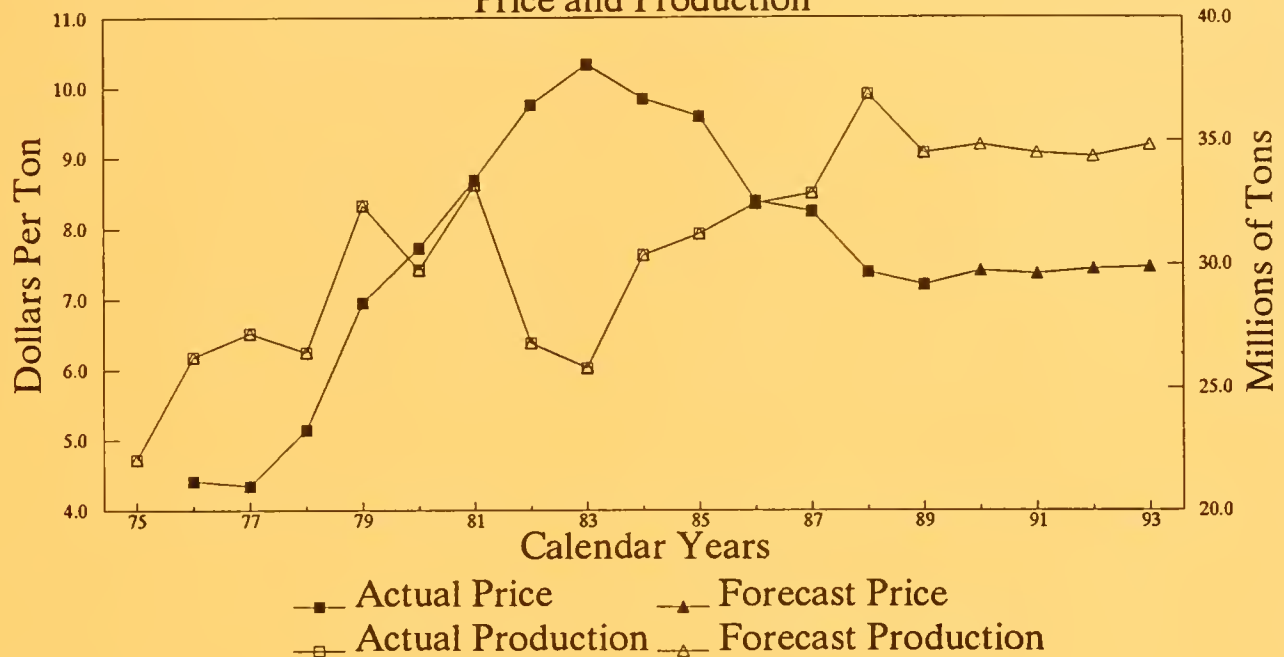
Year	Montana Oil Price	Montana Oil Production	Percent Change	Montana Coal Price	Montana Coal Production	Percent Change	Montana Natural Gas Price	Montana Natural Gas Production	Percent Change
A 73	\$3.843	34.558							
A 74	6.814	34.629	77.31%						
A 75	7.845	32.460	15.13%		22.076				
A 76	8.411	31.698	7.21%	\$4.415	26.226				
A 77	8.582	31.725	2.03%	4.344	27.205	-1.61%			
A 78	9.253	28.164	7.82%	5.154	26.418	18.65%			
A 79	12.279	28.337	32.70%	6.951	32.350	34.87%			
A 80	22.250	28.539	81.20%	7.724	29.752	11.12%			
A 81	34.317	29.639	54.23%	8.686	33.188	12.45%			
A 82	31.311	29.944	-8.76%	9.758	26.815	12.34%	\$2.067	44.655	
A 83	28.804	28.695	-8.01%	10.332	25.785	5.88%	2.287	43.456	10.66%
A 84	28.066	29.602	-2.56%	9.846	30.359	-4.70%	2.355	44.079	2.96%
A 85	25.243	29.318	-10.06%	9.592	31.213	-2.58%	2.175	44.330	-7.63%
A 86	13.518	26.525	-46.45%	8.387	32.416	-12.56%	1.919	39.444	-11.78%
A 87	16.631	23.961	23.03%	8.240	32.847	-1.75%	1.438	39.690	-25.05%
A 88	13.843	22.064	-16.76%	7.385	36.879	-10.38%	1.503	45.126	4.52%
A 89	17.098	19.957	23.51%	7.209	34.469	-2.38%	1.659	45.595	10.37%
F 90	20.982	18.558	22.72%	7.409	34.822	2.77%	1.564	45.168	-5.75%
F 91	23.729	17.809	13.09%	7.362	34.473	-0.63%	1.773	45.622	13.41%
F 92	21.600	17.196	-8.97%	7.434	34.356	0.98%	1.907	47.304	7.53%
F 93	21.227	16.525	-1.73%	7.456	34.818	0.30%	2.097	47.437	10.00%

MONTANA OIL STATISTICS Price and Production

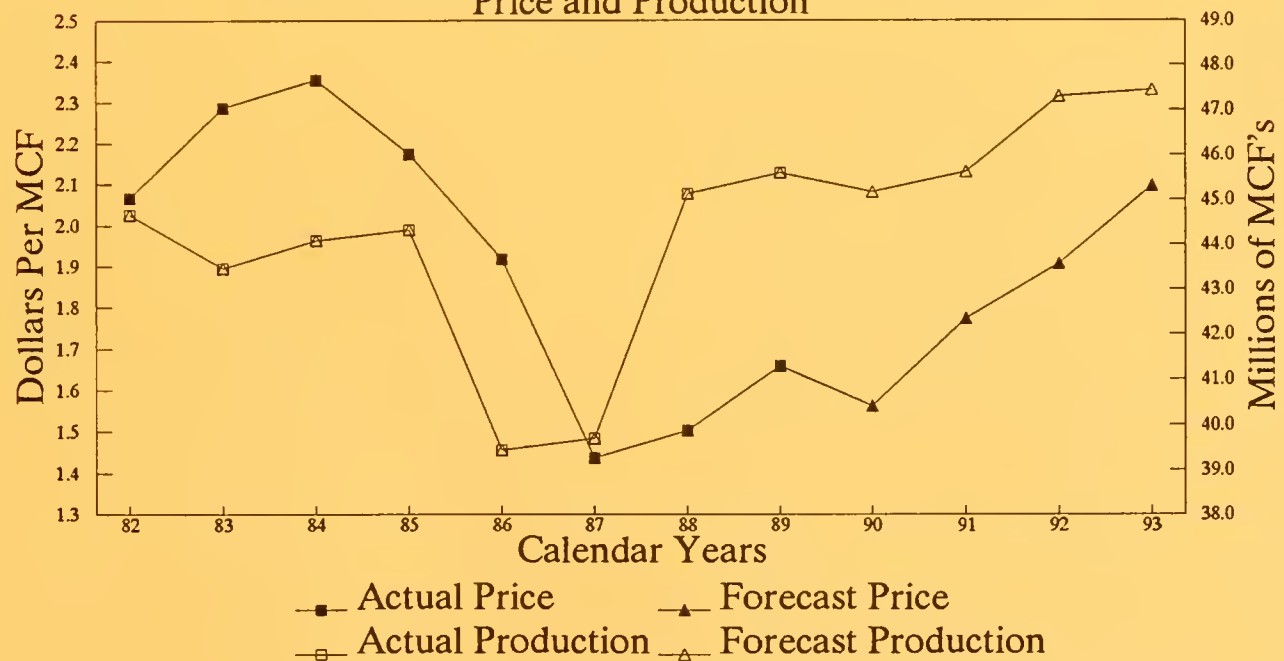


ECONOMIC OVERVIEW

MONTANA COAL STATISTICS Price and Production



MONTANA NATURAL GAS STATISTICS Price and Production



ECONOMIC OVERVIEW

Interest Rates

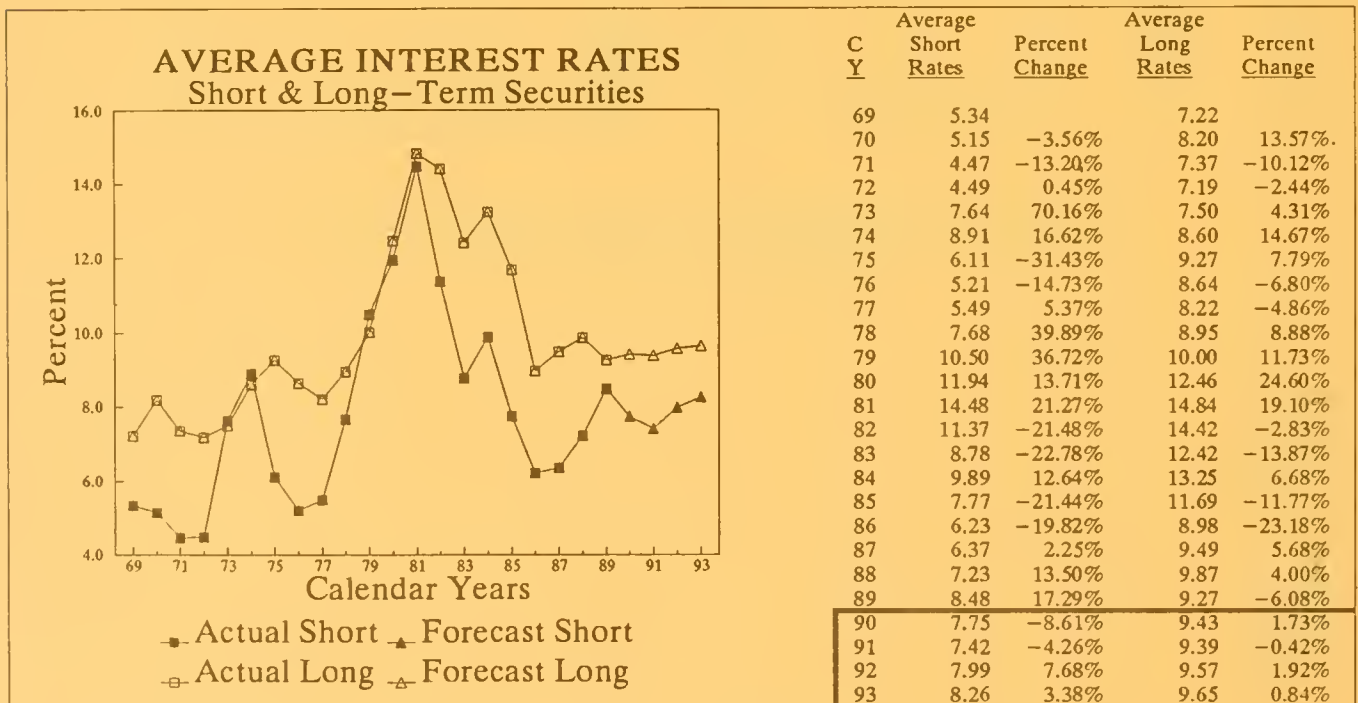
Interest rates are highly susceptible to federal policies and the actions of the Federal Reserve Board. Critical factors affecting interest rates include: the Federal Reserve's philosophy on monetary policy, the federal deficit, and changes in the value of the dollar.

Interest rates are expected to decline in calendar 1991 and then increase slightly in calendar 1992 and 1993. This assumption is based on a less restrictive monetary policy by the Federal Reserve, at least in the near-term.

However, by calendar year 1992, a tightening of the money supply is anticipated. This change should limit funds available thereby restricting economic expansion.

Interest rates directly affect Montana's investment earnings from both short and long-term securities. In addition, these rates impact other tax sources by influencing economic variables such as construction activity, consumer spending, and business borrowing.

The following table provides historical interest rates as provided by Wharton Econometrics. Also presented in the table are projected interest rates as developed by the LFA.



ECONOMIC ASSUMPTIONS

<u>YEAR</u>	<u>ASSUMPTION</u>	<u>CY/FY</u> <u>1990</u>	<u>CY/FY</u> <u>1991</u>	<u>CY/FY</u> <u>1992</u>	<u>CY/FY</u> <u>1993</u>
	MT Population July 1 (Thousands)	800	800	804	808
	MT Population >=16 July 1 (Thousands)	608	609	613	617
	MT Population 18-24 July 1 (Thousands)	71	67	64	61
CY	MT Nonfarm Employment (Thousands)	294.800	295.300	298.900	301.000
CY	MT Personal Income (Billions)	\$11.833	\$12.471	\$13.041	\$13.712
CY	MT Nonfarm Wage & Salary Income (Billions)	\$5.676	\$5.941	\$6.226	\$6.509
CY	U.S. Corporate Profits Before Taxes (Billions)	\$297.700	\$303.400	\$310.300	\$306.600
CY	CPI Percent Change	5.56%	5.73%	3.97%	4.59%
FY	Short-Term Interest Rate	8.12%	7.59%	7.71%	8.13%
FY	Long-Term Interest Rate	9.35%	9.41%	9.48%	9.61%
CY	Prime Interest Rate	9.95%	9.81%	10.00%	10.00%
FY	Treasury Cash Average Balance (Millions)	\$327.724	\$266.596	\$238.918	\$219.369
FY	TRANS Issue (Millions)	\$0.000	\$0.000	\$0.000	\$0.000
FY	Individual Income Tax Audits (Millions)	\$9.428	\$8.930	\$9.431	\$9.954
FY	Corporation Tax Audits (Millions)	\$8.369	\$8.109	\$8.239	\$8.174
CY	Total Oil Production (Million Barrels)	18.558	17.809	17.196	16.525
CY	Montana Oil Price (\$/Barrel)	\$20.982	\$23.729	\$21.600	\$21.227
FY	Statewide Taxable Valuation (Millions)	\$1,884.550	\$1,564.317	\$1,587.654	\$1,616.398
CY	Total Coal Production (Million Tons)	34.822	34.473	34.356	34.818
CY	Montana Coal Price (CSP/Ton)	\$7.409	\$7.362	\$7.434	\$7.456
FY	Coal Tax Credits (Millions)	\$7.141	\$4.996	\$2.449	\$0.000
CY	Total Natural Gas Production (M MCF)	45.168	45.622	47.304	47.437
CY	Montana Natural Gas Price (\$/MCF)	\$1.564	\$1.773	\$1.907	\$2.097
CY	Copper Production (M lbs)	111.061	135.762	137.863	130.776
CY	Gold Production (M ozs)	0.357	0.348	0.345	0.347
CY	Silver Production (M ozs)	6.430	6.449	6.454	6.457
CY	Lead Production (M lbs)	11.651	11.665	11.674	11.739
CY	Zinc Production (M lbs)	31.986	32.029	32.421	32.602
CY	Molybdenum Production (M lbs)	13.000	14.100	10.900	9.300
CY	Palladium Production (M ozs)	0.185	0.200	0.222	0.290
CY	Platinum Production (M ozs)	0.057	0.061	0.067	0.088
CY	Copper Price	\$1.031	\$1.046	\$1.038	\$1.042
CY	Gold Price	\$400.675	\$400.675	400.675	\$400.675
CY	Silver Price	\$4.775	\$4.775	\$4.775	\$4.775
CY	Lead Price	\$0.209	\$0.209	\$0.209	\$0.209
CY	Zinc Price	\$0.502	\$0.502	\$0.502	\$0.502
CY	Molybdenum Price	\$3.104	\$3.119	\$3.112	\$3.115
CY	Palladium Price	\$132.725	\$132.725	\$132.725	\$132.725
CY	Platinum Price	\$453.253	\$453.253	\$453.253	\$453.253
FY	Forest Receipts (Millions)	\$7.582	\$11.150	\$7.753	\$7.705
FY	Permanent Trust Gains/Losses (Millions)	\$1.685	\$1.195	\$1.195	\$1.195
FY	Common School Trust Gains/Losses (Millions)	\$1.394	\$1.231	\$1.231	\$1.231
FY	Resource Ind. Trust Gains/Losses (Millions)	\$0.339	\$0.339	\$0.339	\$0.339
FY	Park Acq. Trust Gains/Losses (Millions)	\$0.084	\$0.054	\$0.054	\$0.054
FY	Liquor Unit Sales (Millions)	4.883	4.780	4.680	4.582
FY	Wine Unit Sales (Millions)	0.121	0.100	0.083	0.067
FY	Liquor Cost Per Unit	\$4.890	\$4.977	\$5.066	\$5.156
FY	Wine Cost Per Unit	\$3.262	\$3.258	\$3.372	\$3.483
FY	Liquor Division Budget (% Change)	0.51%	0.00%	0.00%	0.00%
FY	Cigarette Packs (Millions)	69.568	68.874	68.068	67.156
FY	Tobacco Value (Millions)	\$7.145	\$7.626	\$8.053	\$8.490
FY	Insurance Premiums Growth (% Change)	1.89%	1.89%	1.89%	1.89%
FY	Insurance Premiums Tax Credit	\$2.151	\$3.231	\$4.311	\$5.391
FY	Police & Firemen Retirement (Millions)	\$6.076	\$6.213	\$6.391	\$6.479
CY	Telephone Taxable Income (Millions)	\$223.653	\$234.185	\$241.724	\$250.770
CY	Kilowatt Hours Produced (Millions)	22,674.000	22,664.000	22,682.000	22,663.000
FY	Barrels of Beer (Millions)	0.704	0.702	0.706	0.711
CY	Freight Line Earnings (Millions)	\$21.206	\$21.757	\$21.768	\$21.699
FY	Liters of Wine (Millions)	5.203	5.036	4.907	4.785
FY	Video Machine Net Income (Millions)	\$112.635	\$126.079	\$139.382	\$150.333
FY	Statewide Vehicle Value (Millions)	\$1901.204	\$1905.049	\$1935.412	\$1986.326
FY	Per Capita Lottery Sales	\$26.917	\$32.080	\$38.478	\$44.817

GENERAL FUND REVENUES BY COMPONENT

General Fund Revenue Estimates

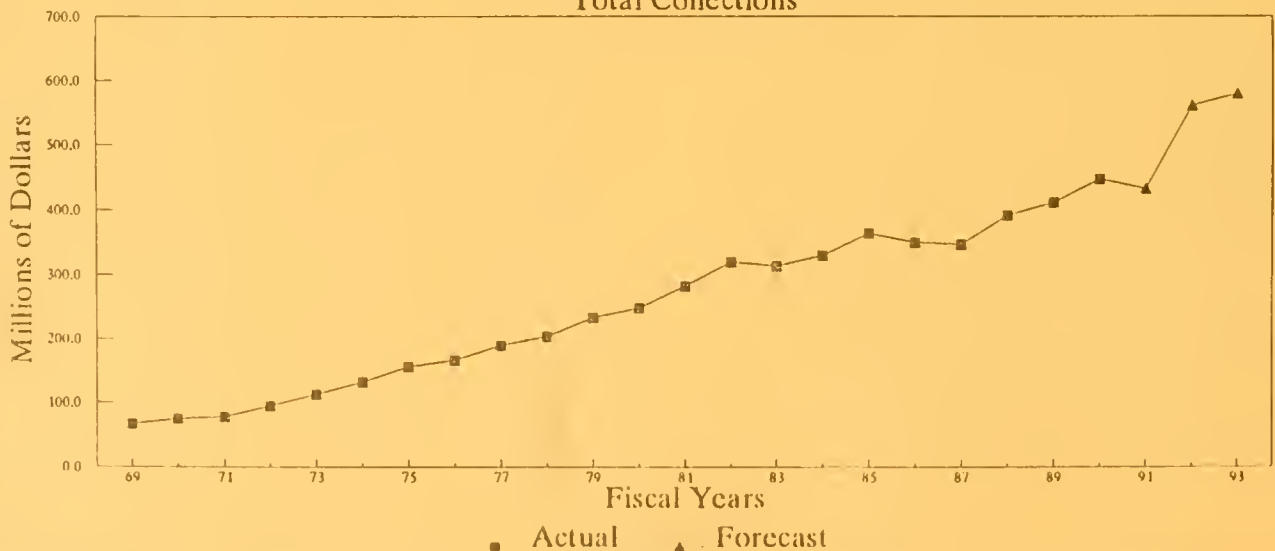
General fund revenue includes receipts from levies upon personal income, corporate income, mineral extraction, alcoholic beverage consumption, insurance premiums, and numerous other fees, fines, and taxes. Since most sources are influenced by the economic climate, forecasts formulated for these

revenues utilize the economic forecasts previously outlined.

Following are descriptions summarizing the forecast methodology used for each of the larger general fund revenue sources. Also shown are historical collections for each major source and projected revenue for the 1993 biennium.

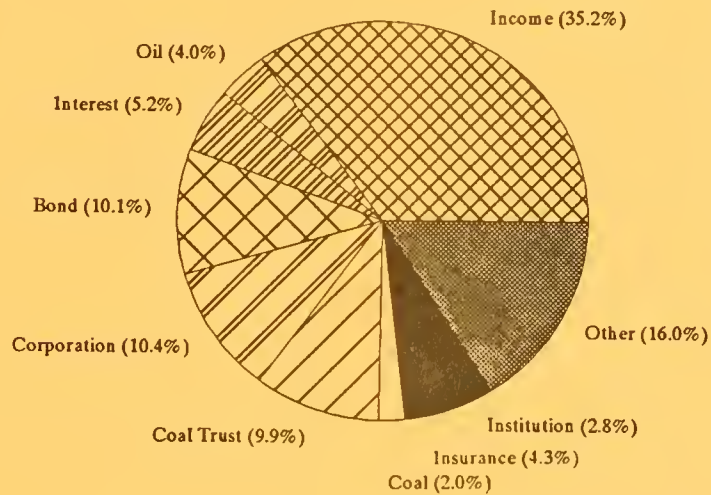
Source of Revenue	Actual Fiscal 1990	Estimated Fiscal 1991	Estimated Fiscal 1992	Estimated Fiscal 1993	Estimated FY 90-91	Estimated FY 92-93
Individual Income Tax	\$159.443210	\$150.245000	\$305.411000	\$323.470000	\$309.688210	\$628.881000
Corporation License Tax	48.242988	43.307000	53.645000	52.879000	91.549988	106.524000
Coal Severance Tax	10.445286	7.456000	5.939000	5.913000	17.901286	11.852000
Oil Severance Tax	14.510149	20.296000	20.520000	18.081000	34.806149	38.601000
Interest on Investments	25.869827	20.235000	18.421000	17.835000	46.104827	36.256000
Long-Range Bond Excess	46.168712	43.036000	9.393000	9.335000	89.204712	18.728000
Coal Trust Interest Income	44.830283	42.473000	44.225000	45.890000	87.303283	90.115000
Insurance Premiums Tax	19.446368	18.746000	18.020000	17.395000	38.192368	35.415000
Public Institutions Reimb.	12.284668	12.205000	12.618000	13.065000	24.489668	25.683000
Liquor Profits	3.500000	8.018000	4.363000	4.302000	11.518000	8.665000
Liquor Excise Tax	5.428076	5.500000	5.710000	5.691000	10.928076	11.401000
Inheritance Tax	9.049129	9.391000	9.704000	9.969000	18.440129	19.673000
Metal Mines Tax	3.664579	3.991000	4.661000	4.460000	7.655579	9.121000
Electrical Energy Tax	4.100543	4.240000	4.239000	4.241000	8.340543	8.480000
Drivers' License Tax	0.862954	0.879000	0.882000	0.886000	1.741954	1.768000
Telephone License Tax	3.760038	3.903000	4.073000	4.209000	7.663038	8.282000
Beer License Tax	1.267950	1.264000	1.272000	1.280000	2.531950	2.552000
Natural Gas Severance Tax	1.057277	1.438000	1.634000	1.816000	2.495277	3.450000
Freight Line Tax	1.166312	1.197000	1.197000	1.193000	2.363312	2.390000
Wine Tax	0.832453	0.806000	0.785000	0.766000	1.638453	1.551000
Video Gaming Income Tax	5.302840	6.304000	6.969000	7.517000	11.606840	14.486000
Motor Vehicle Account	6.207916	6.672000	6.850000	7.033000	12.879916	13.883000
Vehicle Fees	2.661686	2.667000	2.710000	2.781000	5.328686	5.491000
Public Contractor's Tax	1.118458	1.044000	1.070000	1.067000	2.162458	2.137000
Other Revenue Sources	16.740072	16.996000	17.977000	18.527000	33.736072	36.504000
Grand Total	\$447.961774	\$432.309000	\$562.288000	\$579.601000	\$880.270774	\$1,141.889000

GENERAL FUND REVENUE Total Collections

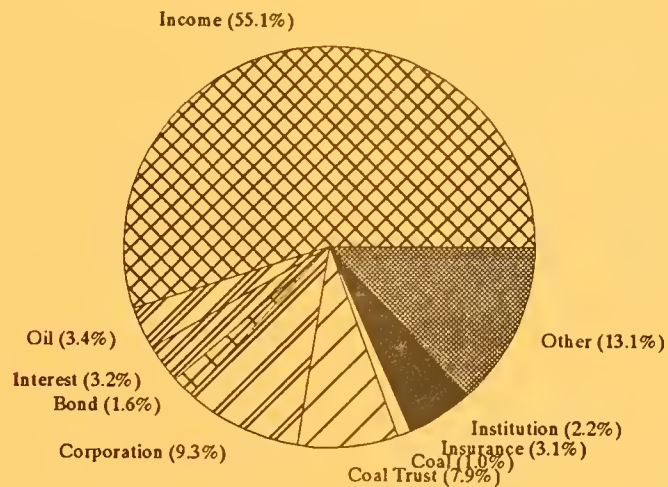


GENERAL FUND REVENUES BY COMPONENT

General Fund Revenue Analysis *Contribution By Major Component FY 90-91*



General Fund Revenue Analysis *Contribution By Major Component FY 92-93*



GENERAL FUND REVENUES BY COMPONENT

Individual Income Tax

Individual or personal income tax is the largest single source of revenue to the general fund. This tax was first enacted in 1933 and has been amended many times since then.

The tax is levied against taxable income, which is defined as Montana personal income adjusted for exemptions and deductions. The marginal tax rates range from 2 percent to 11 percent, with the size of the tax brackets and the values of the personal exemption and standard deduction fully indexed for inflation. Once tax liability is determined, the amount of tax due is computed by subtracting allowable credits.

The income tax forecasts for the 1993 biennium are based on slow growth in wage and salary income and employment. With national economic conditions weakening, Montana's economic growth is also expected to remain slow, primarily due to recessionary pressures and the continuing shift in employment from basic industries to the service sectors. Additional factors that affect receipts include credits, exemptions, indexation and audit efforts by the Department of Revenue. Projections for fiscal years 1991 through 1993 are based on inflation rates of 5.7, 4.0, and 4.6 percent, respectively, and the continuation of all statutory credits and exemptions. The projections also include audit collections of about \$11.8 million for fiscal 1991 through fiscal 1993.

A 10 percent surtax was imposed for tax years 1987 and 1988, and a 5 percent surtax for tax year 1990. Since this surtax ends on December 31, 1990, it is not included in the forecasts for the 1993 biennium.

The reform of federal tax laws in 1986 continues to have significant positive impacts on state income tax revenues. The Federal Tax Reform Act of 1986: 1) broadened the federal tax base by eliminating capital gains exclusions,

phasing out interest deductions, and tying medical and miscellaneous deductions to income levels; 2) increased and indexed personal exemptions and standard deductions; and 3) lowered rates on taxable income. The net effect of the 1986 Tax Reform Act was to slow the growth in federal tax liability. The act has a positive effect on Montana's tax revenues. First, because Montana's definitions of income and deductions are tied to the federal definitions, the federal change broadened Montana's tax base. Second, because of reduced federal tax liability (reducing the deductions claimed for federal tax paid), state taxable income grew.

The LFA estimates that the 1986 Federal Tax Reform Act has increased Montana state income tax revenues by \$135.5 million. The largest impact of the act was in fiscal 1989 and 1990, as the final phase-out of deductions occurred and as capital gains resumed its normal growth rate. The positive impact of the act on state revenue will continue in the future, although the rate of growth in state income tax collections will not be as great as it was between 1987 and 1990.

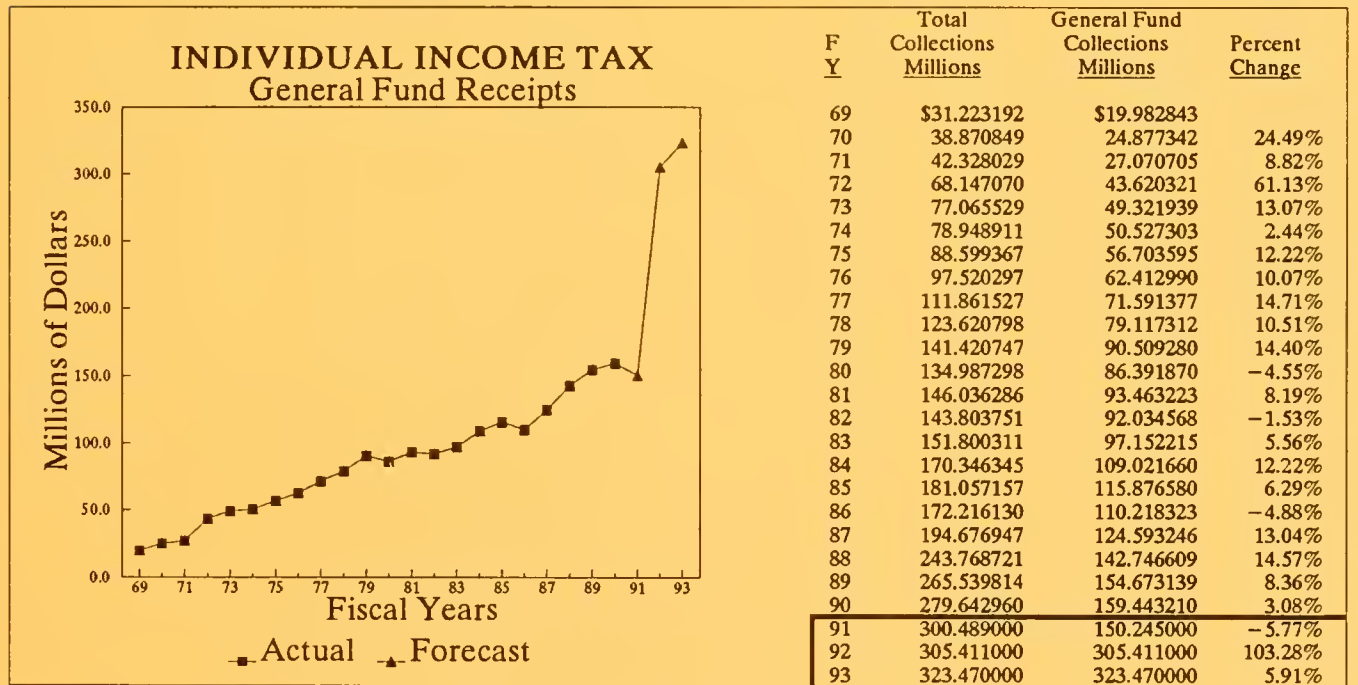
The federal Revenue Reconciliation Act of 1990 will have a small positive impact on Montana income tax revenues. Annual federal tax liability will decline in the 1993 biennium by approximately \$4.5 million, due to the reduction in the top marginal rate on capital gains and ordinary income. Those with very high incomes will experience an increase in their federal tax liability, as the marginal rates on ordinary income climb from 28 percent to 31 percent and certain exemptions and deductions are eliminated. State income tax revenue for the 1993 biennium will increase by about \$100,000 due to the 1990 act.

House Bill 28, enacted during the June 1989 special session, significantly altered the distribution of individual income tax collections beginning in the 1993 biennium. Table 1 shows the current law distribution.

GENERAL FUND REVENUES BY COMPONENT

Table 1
Distribution of Individual Income Tax Collections

<u>Fiscal Year</u>	<u>General Fund</u>	<u>School Equalization</u>	<u>Debt Service</u>
1975-86	64.0%	25.0%	11.0%
1987-89	58.2	31.8	10.0
1990	57.0	33.2	9.8
1991	50.0	41.3	8.7
1992 and Beyond	100.0	0.0	0.0



GENERAL FUND REVENUES BY COMPONENT

Corporation License Tax

The corporation license tax is levied against a corporation's net income earned in Montana. The corporation income tax is imposed on corporations that, for reasons of jurisdiction, are not taxable under a license tax. The tax rate is 6.75 percent, except for corporations making a "water's edge" election (Section 15-31-322, MCA), which pay a 7 percent tax on their net income.

Eighty percent of the corporation taxes collected from financial institutions is distributed to local governments in the county in which the financial institution is located. The remaining 20 percent is allocated as shown in Table 2.

A 5 percent surtax, which was imposed for tax year 1990, is not included in the forecasts for the 1993 biennium since it ends on December 31, 1990.

House Bill 56, enacted during the June 1989 special session, required corporations with annual liabilities in excess of \$5,000 to make quarterly estimated tax payments beginning in tax year 1990. Previously, tax payments were made annually.

House Bill 28, also enacted during the June 1989 special session, significantly altered the distribution of corporation license tax collections beginning in the 1993 biennium. Table 2 provides the current law distribution.

The forecasts for fiscal 1991 through 1993 are based on slow economic growth. This assumption is premised on inflation in the range of 4.0 to 5.7 percent, short-term interest rates of about 7.5 to 8.1 percent, and oil prices at about \$21 per barrel. Although slow economic growth is expected to increase corporation profits only modestly, the positive impact of higher oil prices increases this anticipated level of growth.

Additional factors that affect receipts include tax credits and the audit efforts by the Department of Revenue. As with individual income tax, all forecasts have been adjusted for allowable credits. The projections for audit collections are about \$8 million each year for fiscal 1991 through fiscal 1993.

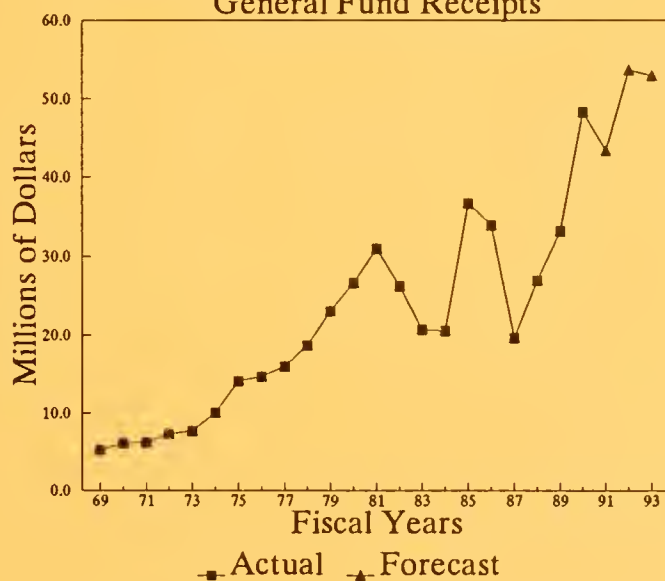
GENERAL FUND REVENUES BY COMPONENT

Table 2
Distribution of Corporation License Tax Collections*

<u>Fiscal Year</u>	<u>General Fund</u>	<u>School Equalization</u>	<u>Debt Service</u>
1975-1990	64.0%	25.0%	11.0%
1991	61.0	28.5	10.5
1992 and Beyond	100.0	0.0	0.0

*After distribution of financial institutions' corporation tax to counties.

CORPORATION LICENSE TAX General Fund Receipts



<u>Fiscal Year</u>	<u>Total Collections Millions</u>	<u>General Fund Collections Millions</u>	<u>Percent Change</u>
69	\$8.069923	\$5.164751	
70	9.535866	6.102954	18.17%
71	9.605806	6.147716	0.73%
72	11.299998	7.326719	19.18%
73	12.057255	7.716643	5.32%
74	15.736161	10.071143	30.51%
75	22.078581	14.130292	40.30%
76	23.020112	14.732872	4.26%
77	24.957239	15.972633	8.41%
78	29.238770	18.712814	17.16%
79	36.091654	23.098659	23.44%
80	45.623189	26.658417	15.41%
81	52.900964	30.962755	16.15%
82	44.630472	26.234449	-15.27%
83	35.830832	20.733658	-20.97%
84	35.396240	20.547177	-0.90%
85	62.609205	36.657611	78.41%
86	58.584784	33.884815	-7.56%
87	34.566361	19.682607	-41.91%
88	46.200104	27.027277	37.32%
89	56.139749	33.188406	22.80%
90	80.315504	48.242988	45.36%
91	75.628000	43.307000	-10.23%
92	58.064000	53.645000	23.87%
93	57.229000	52.879000	-1.43%

GENERAL FUND REVENUES BY COMPONENT

Coal Severance Tax

The coal severance tax is imposed on all coal production in excess of 20,000 tons per company per calendar year. However, producers of 50,000 tons or less in any calendar year are exempt from the tax. Legislation passed by the 1987 legislature provided for a phase-down of the tax rate to 15 percent by the 1993 biennium as shown in Table 3. The law establishes a lower tax rate for coal with a heating quality of less than 7,000 BTU.

Table 3
Coal Severance Tax Rates

	<u><7,000 BTU</u>	<u>≥7,000 BTU</u>
FY 88	20%	30%
FY 89	17%	25%
FY 90	17%	25%
FY 91	13%	20%
FY 92 & after	13%	15%

The distribution of the tax has been amended many times since its enactment in 1975. The distribution during the 1991 and 1993 biennium is shown in Table 4. Beginning in fiscal 1994, the distribution to the Highway Reconstruction Trust is scheduled to end.

Table 4
Coal Severance Tax Distribution Table

<u>Account Name</u>	<u>Fiscal 1990</u>	<u>Fiscal 1991-1993</u>
General Fund	15.390%	15.390%
Agriculture Act	0.760	0.760
Public School Equalization	3.800	11.400
State Library	0.380	0.380
Highway Reconstruction Trust	12.000	12.000
Conservation Districts	0.190	0.190
Alternative Energy Research	.000	.000
County Land Planning	0.380	0.380
Local Impact	6.650	6.650
Renewable Resources Bond	0.475	0.475
Water Development	0.475	0.475
Permanent Trust	50.000	50.000
Park Acquisition Trust	1.900	1.900
Education Trust	<u>7.600</u>	<u>.000</u>
Totals	100.000	100.000

Coal severance tax revenues are dependent on the contract sales price per ton of coal and the number of tons

produced. Since most of Montana's coal is sold to utilities under long-term contracts, prices are generally

GENERAL FUND REVENUES BY COMPONENT

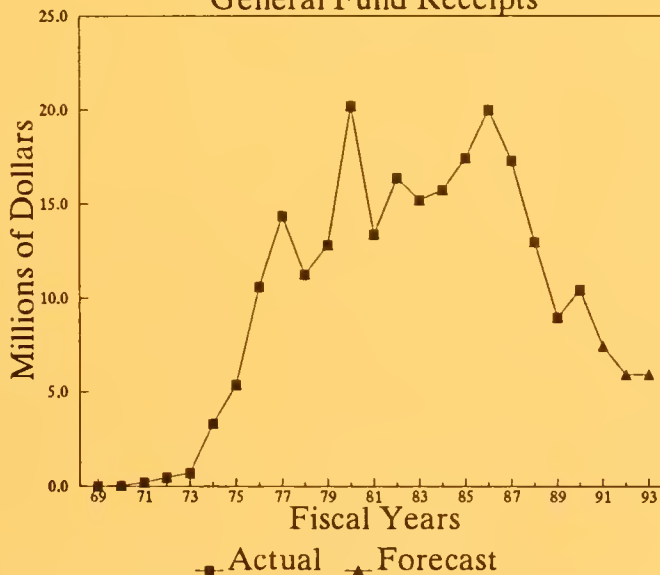
increased by inflation indices specified in the contracts. However, with lower demand and competitive prices for other fuels, coal prices are expected to remain relatively constant during the forecast period. Deductions for federal, state, and tribal royalty payments from the contract sales price have been included in the price forecasts.

Production levels are influenced by the demand for electrical power and the price of other fuels such as oil and natural gas. Based on information from the major coal producers, production is anticipated to increase slightly between calendar 1991 and 1993.

The 1989 legislature extended the incentive tax credit on new and incremental coal production to include coal produced between January 1, 1989 and June 30, 1991. Because the tax credit is claimed in the calendar year following the production year, the impact of this legislation will continue during the 1993 biennium. Total credits claimed are projected to be \$4.996 million in fiscal 1991 and \$2.449 million in fiscal 1992.

A dispute involving the state's authority to tax coal mined on Crow Indian land has been resolved in the U.S. Supreme Court in favor of the Crow Indian Tribe. Production on these lands has been excluded from the revenue forecasts.

**COAL SEVERANCE TAX
General Fund Receipts**



F Y	Total Collections Millions	General Fund Collections Millions	Percent Change
69	\$0.019106	\$0.019106	
70	0.050300	0.050300	163.27%
71	0.212056	0.212056	321.58%
72	0.483434	0.483434	127.97%
73	0.694213	0.694213	43.60%
74	3.315416	3.315416	377.58%
75	5.395415	5.395415	62.74%
76	23.964642	10.586335	96.21%
77	35.906057	14.362422	35.67%
78	34.372063	11.241695	-21.73%
79	42.689164	12.806813	13.92%
80	75.125009	20.222579	57.90%
81	70.415073	13.378906	-33.84%
82	86.186886	16.375541	22.40%
83	80.045016	15.208581	-7.13%
84	82.823427	15.736468	3.47%
85	91.748855	17.432283	10.78%
86	84.217223	20.001598	14.74%
87	76.546602	17.290794	-13.55%
88	84.638333	12.961531	-25.04%
89	58.565583	8.968746	-30.80%
90	67.870544	10.445286	16.46%
91	48.450000	7.456000	-28.62%
92	38.587000	5.939000	-20.35%
93	38.419000	5.913000	-0.44%

GENERAL FUND REVENUES BY COMPONENT

Oil Severance Tax

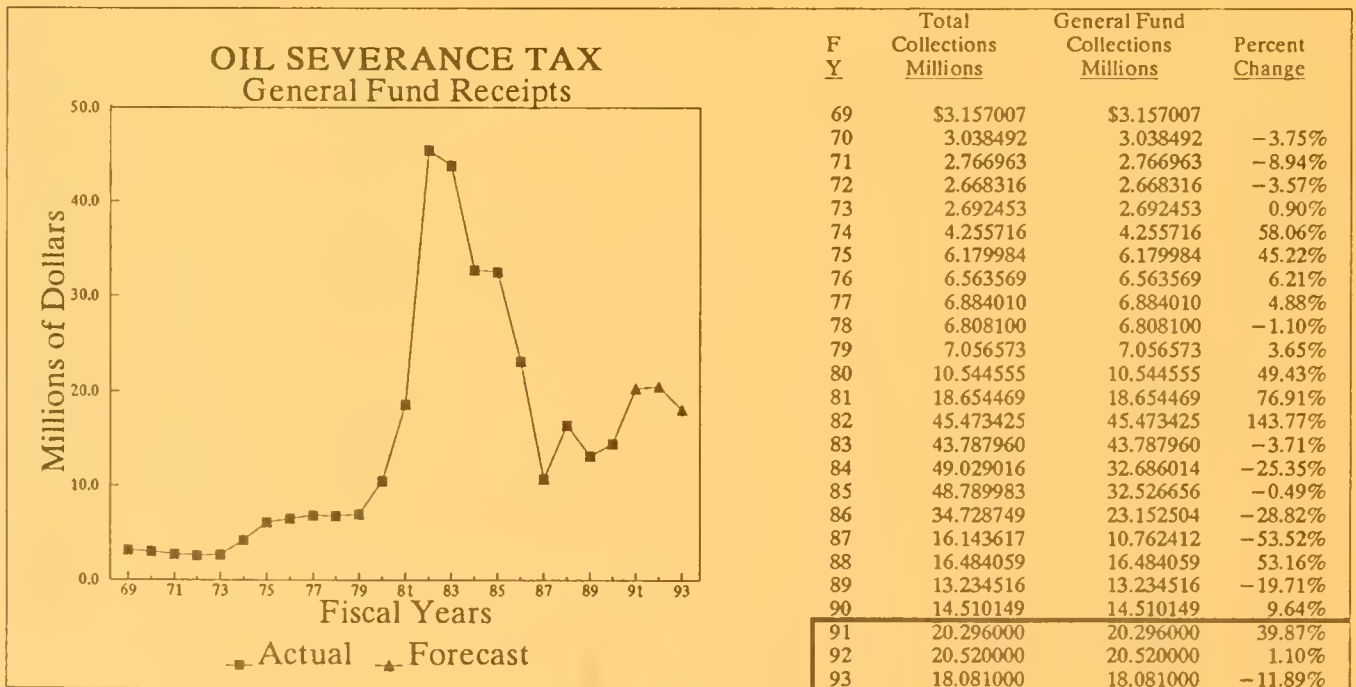
An oil severance tax is imposed on the production of petroleum and other mineral or crude oil in the state. The tax was first enacted in 1921 and has since undergone several modifications. The tax rate increased from 2.65 to 5 percent on April 1, 1981; to 6 percent on April 1, 1983; and decreased to 5 percent on April 1, 1985.

The 1987 legislature enacted several tax incentives designed to increase production. Beginning April 1, 1987, new production was exempt from the tax for the first 24 months of production, as were the first five barrels per day of production from a stripper well. The remaining production from a stripper well was taxed at 3 percent. These tax incentives were in effect until the price of oil exceeded \$25 and \$30 per barrel. These price levels were reached in August 1990, when the tax incentives were revoked by executive order.

Oil severance tax revenues are dependent on well-head prices and the number of barrels of oil produced. World oil prices have increased sharply in recent months due to the Persian Gulf conflict. During calendar 1990, world prices increased from \$18 to \$40 per barrel and then dropped to below \$30 per barrel. Prices continue to be volatile. These forecasts assume Montana oil prices will average \$23.73, \$21.60, and \$21.23 per barrel in calendar 1991 through 1993.

Taxable oil production has declined from 34.6 million barrels produced in calendar 1974 to 20.0 million barrels in calendar 1989. This decline is expected to continue in the 1993 biennium, although at a slower rate than during the 1989 and 1991 biennia.

From fiscal 1984 through 1987, one-third of oil severance tax receipts retained by the state were allocated to the local government block grant program. Since fiscal 1988, 100 percent of collections retained by the state from this tax source have been deposited in the general fund.



GENERAL FUND REVENUES BY COMPONENT

Interest on Investments

The Department of Commerce's Board of Investments is responsible for investing all state funds. Sections 17-6-201 and 17-6-211, MCA, provide guidelines under which the funds must be invested. Unless specifically stated by statute, all interest earned on these investments is deposited in the general fund account.

In the early 1980's, interest income was a major source of general fund revenue due to high interest rates and large investable balances. However, since 1982, with rates and balances lower, interest income has contributed a smaller proportion of total general fund revenues.

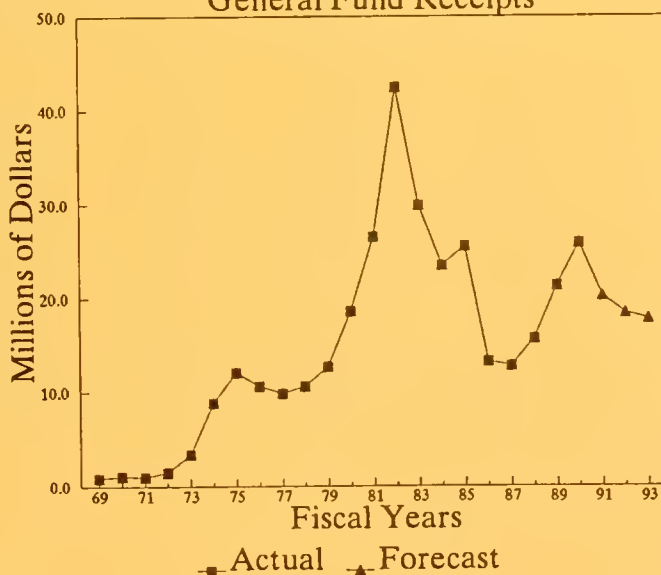
The sharp decline in revenues in fiscal 1986 was the result of lower interest rates, lower investable balances, and a bill that authorized interest earned on the highway gas tax account to accrue to the highway account. The June 1986 special session amended this legislation to allow earnings from the highway account to accrue to the general fund.

Beginning in fiscal 1991, interest earned on the school equalization account will be retained in that account, rather than being deposited in the general fund.

Investable balances are expected to decline sharply during the 1993 biennium, due primarily to the spending down of the highway trust account during the 1993 biennium.

Interest rates are forecast to increase modestly throughout the forecast period. This assumption is based on a less restrictive monetary policy by the Federal Reserve, but continued inflationary pressures due to higher energy prices. A less restrictive monetary policy should insure that the economy does not stagnate during calendar year 1991. However, a tightening of the money supply is anticipated by calendar year 1992 in order to restrict economic expansion. These trends are consistent with the forecasts provided by Wharton Econometrics.

INTEREST ON INVESTMENTS
General Fund Receipts



F Y	Total Collections Millions	General Fund Collections Millions	Percent Change
69	\$0.872740	\$0.872740	
70	1.064999	1.064999	22.03%
71	1.027335	1.027335	-3.54%
72	1.507755	1.507755	46.76%
73	3.391643	3.391643	124.95%
74	8.884671	8.884671	161.96%
75	12.150937	12.150937	36.76%
76	10.607372	10.607372	-12.70%
77	9.891246	9.891246	-6.75%
78	10.663504	10.663504	7.81%
79	12.714971	12.714971	19.24%
80	18.633664	18.633664	46.55%
81	26.566775	26.566775	42.57%
82	42.442554	42.442554	59.76%
83	29.918421	29.918421	-29.51%
84	23.527514	23.527514	-21.36%
85	25.527889	25.527889	8.50%
86	13.285291	13.285291	-47.96%
87	12.826674	12.826674	-3.45%
88	15.731943	15.731943	22.65%
89	21.313825	21.313825	35.48%
90	25.869827	25.869827	21.38%
91	20.235000	20.235000	-21.78%
92	18.421000	18.421000	-8.96%
93	17.835000	17.835000	-3.18%

GENERAL FUND REVENUES BY COMPONENT

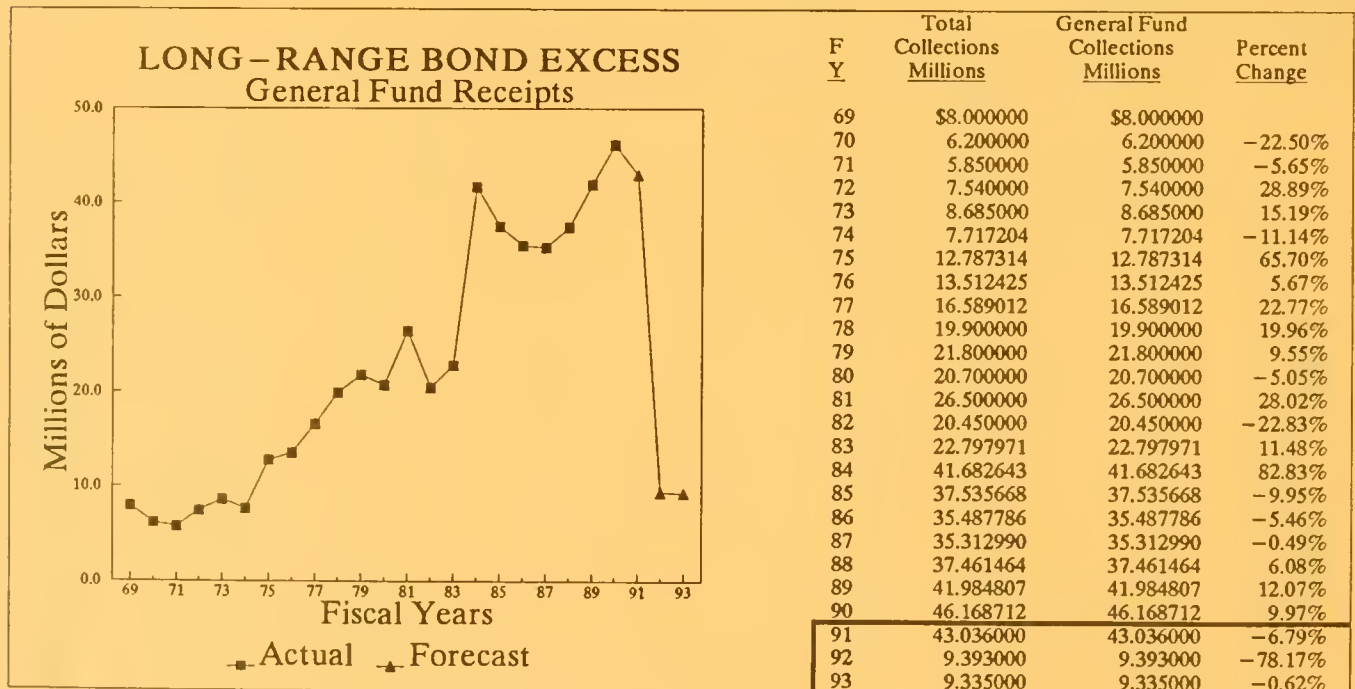
Long-Range Bond Excess

Each biennium all agencies are requested to submit proposals for capital projects to be funded from the sale of long-range building bonds. If the legislature authorizes the sale, the principal and interest charges are paid from the long-range building debt service account. Revenues deposited to this account include portions of the individual income tax and corporation license tax (through fiscal 1991) and cigarette and tobacco taxes. When the amount of money in the debt service account exceeds the annual principal and interest payments, the excess is transferred to the general fund.

Historically, revenues from this source were estimated by adding anticipated

receipts from the earmarked tax sources and subtracting the necessary principal and interest payments. However, in fiscal 1984, the Department of Administration began transferring all debt service revenues to the general fund. A general fund statutory appropriation was established to transfer the necessary principal and interest payments back to the debt service account. These accounting transactions had zero impact on the general fund account balance. It is assumed that the Department of Administration will continue these accounting procedures throughout the forecast period.

Beginning in fiscal 1992, the statutory allocation of individual income and corporation taxes to the long-range building debt service account ends.



GENERAL FUND REVENUES BY COMPONENT

Coal Trust Fund Interest

Article IX, Section 5, of the Montana Constitution requires the Department of Revenue to deposit 50 percent of the coal severance tax receipts to the permanent trust fund. The principal cannot be spent unless three-fourths of the members of each house vote for its appropriation. The interest earned on the fund is available for appropriation. Interest earned on the fund is deposited in a non-expendable trust account and reinvested until appropriated.

In 1982, voters approved Initiative 95, which requires one-fourth of all deposits to the permanent trust fund be invested in the Montana economy. Since some of these investments pay a lower interest rate, this initiative has caused investment income earned on the trust to grow at a slower rate. However, this policy is designed to stimulate economic development, enhancing individual and corporate income tax collections.

The Forty-eighth Legislature enacted legislation authorizing the sale of coal severance tax bonds for financing specific water resource development projects, secured by the flow of revenue into the permanent trust. Debt service on these bonds is retired primarily with pledged project and coal severance tax revenues. This requirement will reduce permanent trust fund interest earnings by about \$500,000 in each of the fiscal years 1991 through 1993.

Total permanent trust interest income is projected to increase over the forecast period. Balances available for investment are expected to increase because of additional coal severance tax receipts being deposited to the permanent trust fund. Long-term interest rates are estimated to gradually increase throughout the forecast period.

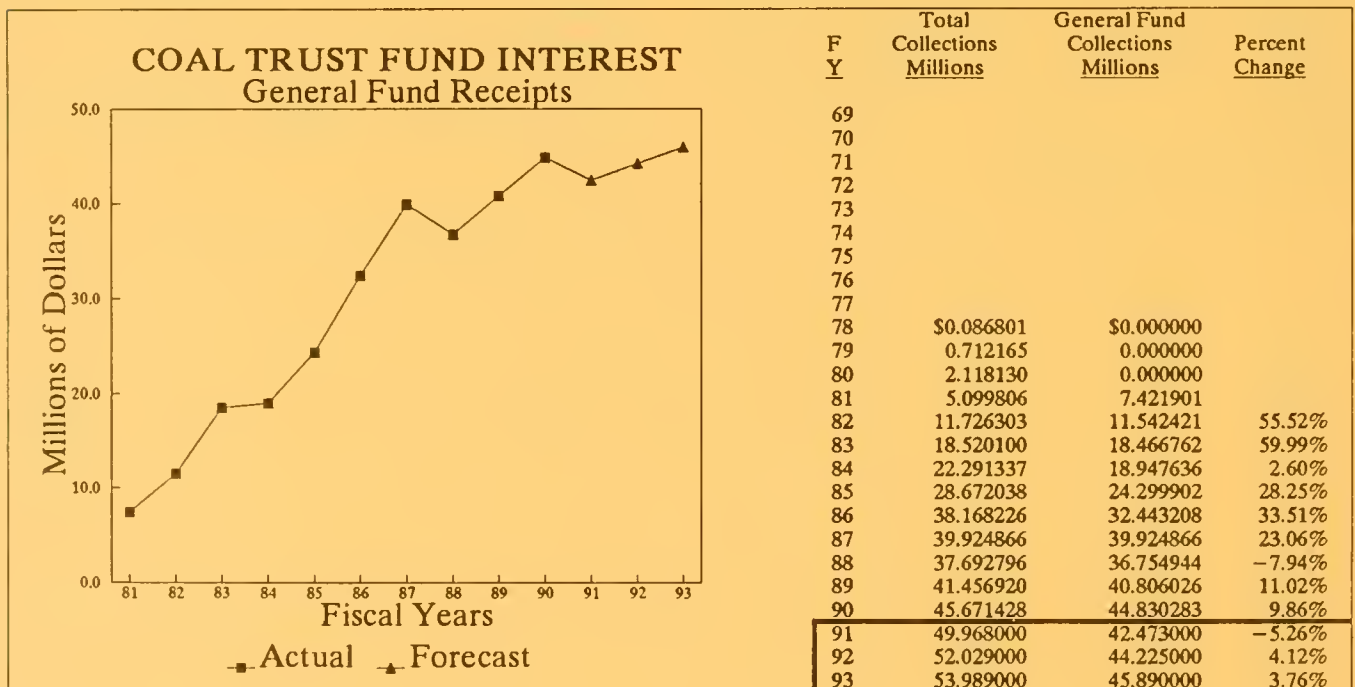
The following table details the distribution of interest earned on the permanent trust.

GENERAL FUND REVENUES BY COMPONENT

Table 5
Distribution of Coal Trust Fund Interest

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Permanent Trust</u>	<u>School Equalization</u>
1984-86	85.0%	15.0%	0.0%
1987	100.0	0.0	0.0
1988-89	98.0	2.0	0.0
1990	100.0*	0.0	0.0
1991 and Beyond	85.0	0.0	15.0

*\$2.0 million of interest was appropriated for medical research facilities, if matching federal funds became available.



GENERAL FUND REVENUES BY COMPONENT

Insurance Premiums Tax

The insurance premiums tax is levied on the net premiums or gross underwriting profit for each insurance company operating in Montana. The tax was first enacted in 1897 and has been amended several times since then. The current tax rate is 2.75 percent of net premiums on policies sold in Montana. Receipts from the tax are distributed to the police and firemen pension funds, with the remainder going to the general fund. In addition to the premiums tax, the State Auditor collects a number of insurance license and fee revenues, which are also deposited in the general fund.

Bills passed during the 1985 and 1989 sessions increased the state's contribution to police and firemen's pension funds, reducing the amount of insurance tax deposited in the general fund.

The 1987 legislature accelerated insurance premium payments from an annual to a quarterly reporting period. An additional \$11.9 million was deposited in the general fund in fiscal 1988 as a result of this acceleration.

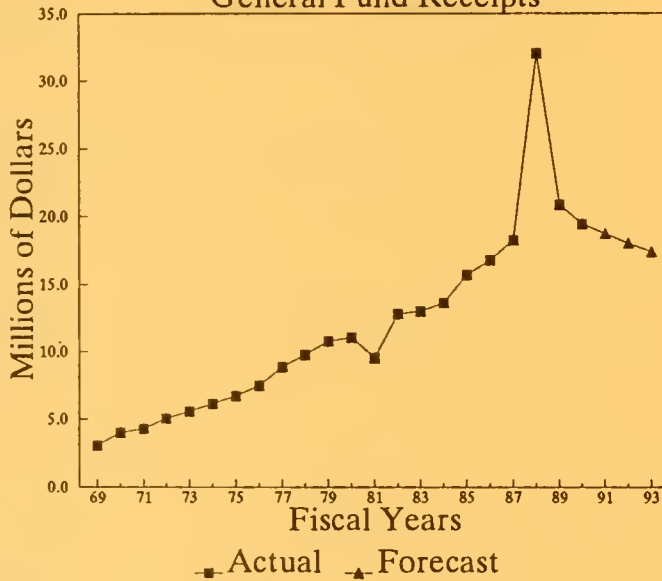
Collections from this revenue source are expected to decline during the 1993 biennium for two reasons. First, the value of premiums sold increased only 1 percent in fiscal 1990. Industry representatives expect this trend to continue during the 1993 biennium. Second, insurers will claim over \$10 million in credits during the biennium, due to the insolvency of the Life of Montana Insurance Company. Under current law, all insurers are assessed a

portion of the insolvency of defaulting insurance companies. Insurers can then claim a credit on their premium tax return equal to 20 percent of the assessment over a five-year period. This credit reduces general fund revenues. In early 1988, Life of Montana was declared to have an insolvency of approximately \$36 million. Insurers began claiming credits for their portion of the assessment in fiscal 1990 and are anticipated to continue claiming credits through fiscal 1998. The total cost to the general fund over the eight-year period will be \$36 million.

The 1989 legislature imposed the insurance premium tax on the workers' compensation insurance sold by the State Fund, provided the Department of Labor and Industry established an assigned risk plan by January 1, 1990. This amendment was anticipated to increase insurance premium taxes by \$6.4 million during the 1991 biennium. Under an assigned risk plan, the State Fund would no longer be the "insurer of last resort". If an employer was unable to secure coverage from the State Fund and at least two private insurers, the Commissioner of Labor would "assign" an insurer to provide coverage. The State Fund and all private insurers would be required to participate in the assigned risk plan. In September, the Commissioner decided not to create an assigned risk plan, concluding that it may have a "negative impact" on the availability and competitiveness of workers' compensation coverage and premium rates. As a result of this decision, State Fund premiums are not subject to the insurance premium tax.

GENERAL FUND REVENUES BY COMPONENT

INSURANCE PREMIUMS TAX General Fund Receipts



F Y	Total Collections Millions	General Fund Collections Millions	Percent Change
69	\$3.822617	\$3.080786	
70	4.931700	4.003699	29.96%
71	5.383425	4.333425	8.24%
72	6.115751	5.065751	16.90%
73	6.812473	5.612473	10.79%
74	7.366923	6.166923	9.88%
75	8.323217	6.723217	9.02%
76	9.101597	7.496699	11.50%
77	10.766727	8.885923	18.53%
78	12.106652	9.787436	10.15%
79	13.748226	10.748226	9.82%
80	14.492757	11.031794	2.64%
81	15.254036	9.551061	-13.42%
82	16.054771	12.790003	33.91%
83	17.011494	13.011479	1.73%
84	18.772261	13.621332	4.69%
85	20.003012	15.691565	15.20%
86	22.484437	16.780399	6.94%
87	23.910034	18.245085	8.73%
88	38.342221	32.047077	75.65%
89	26.843695	20.882814	-34.84%
90	27.350881	19.446368	-6.88%
91	28.190000	18.746000	-3.60%
92	28.722000	18.020000	-3.87%
93	29.265000	17.395000	-3.47%

GENERAL FUND REVENUES BY COMPONENT

Public Institution Reimbursements

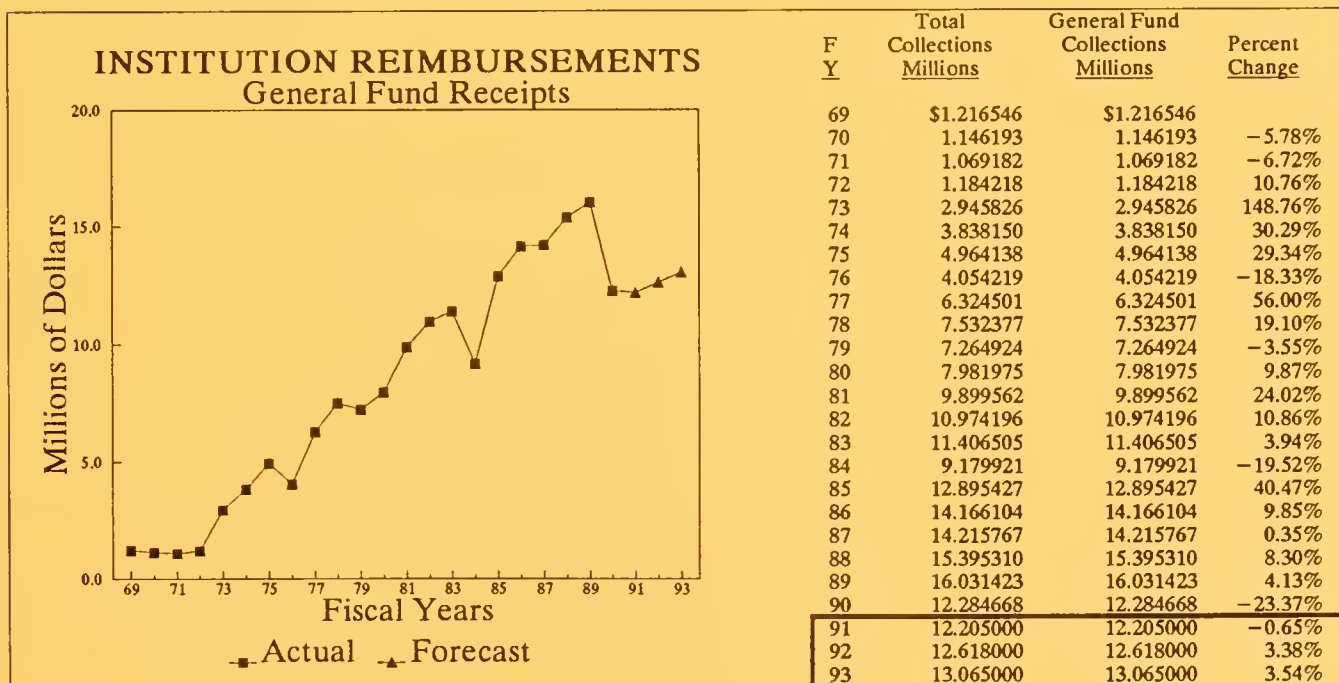
The Department of Institutions receives reimbursements for the cost of sheltering and treating residents at the Montana Developmental Center, Center for the Aged, Montana State Hospital, and the Montana Veteran's Home. There are four sources of reimbursement income: 1) state and federally matched medicaid monies; 2) insurance proceeds from companies with whom the resident is insured; 3) payments by residents or persons legally responsible for them; and 4) federal medicare funds.

All revenue collected from these sources is deposited in the general fund, except reimbursement received for the Veterans' Home, which are appropriated to the institution. Most of the reimbursements come from state and federally matched medicaid payments.

Three variables determine the level of medicaid nursing home payments: 1) the number of patient days eligible for medicaid reimbursement; 2) the reimbursement rate per patient day; and 3) the private resources of medicaid patients.

Prior to fiscal 1990, the state's general fund match to federal medicaid payments was included in the Department of Social and Rehabilitation Services' budget and was received (with the federal portion) as revenue by eligible state institutions. Beginning in the 1991 biennium, the state's general fund match was determined from the documented general fund costs of caring for medicaid residents. This change in budgeting procedures reduced reimbursements to the general fund by approximately \$4.0 million annually.

The other three components of reimbursement (insurance proceeds, payments by residents, and medicare funds) are expected to increase by the rate of inflation.



GENERAL FUND REVENUES BY COMPONENT

Liquor Profits and Excise Tax

The Department of Revenue is authorized to sell liquor and wines to the public and retail liquor establishments throughout the state. These sales result in profits and taxes which are deposited in various state and local accounts.

Prices established by the department include a standard mark-up, a 16 percent excise tax, and a 10 percent license tax. The excise tax is deposited in the general fund. The license tax is distributed to the Department of Institutions and to cities, towns, and counties for alcohol treatment and rehabilitation programs.

Liquor sales for fiscal 1991 through 1993 are expected to decline from the fiscal 1990 level. There appears to be a national trend toward moderation in liquor consumption, due in part to an aging population, more emphasis on drug and alcohol education in our schools, and the increased enforcement of DUI laws.

The deficit reduction package passed by Congress in November 1990 increased the federal tax on alcohol by 8 percent.

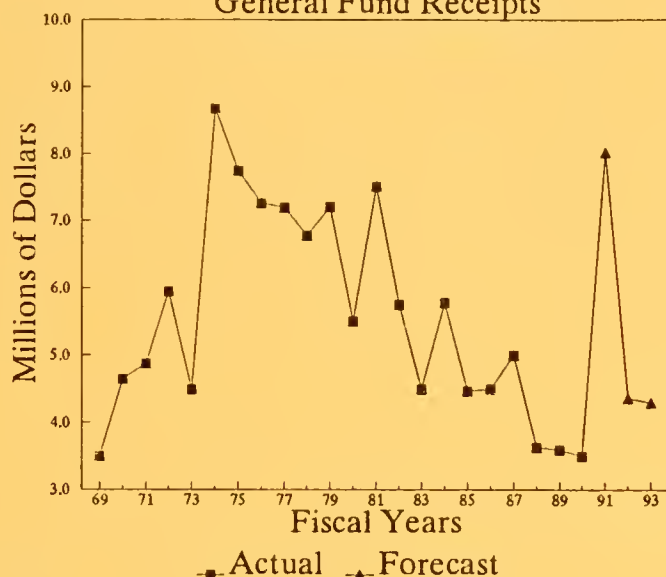
This change will increase Montana's total liquor sales revenues, translating into larger profits and higher excise taxes despite declining consumption. The 1993 biennium forecasts for liquor profits and excise taxes assume no further changes in federal laws.

Operating expenses of the Department of Revenue Liquor Division affect the transfer of liquor profits to the general fund. It is estimated that these expenses will remain at the fiscal 1990 level of \$6.2 million.

The increased profits in fiscal 1984, fiscal 1987, and fiscal 1991 are attributable to a reduction in the inventory of goods of the liquor division. In fiscal 1990, the department began a "bailment" program, in which private vendors own the liquor and wine stocked in the state warehouse. The product becomes state property once it is loaded on a truck for shipment to a store. The department pays vendors for product purchases every three weeks. Previously, the department purchased stock from liquor vendors and then stored it in the warehouse. The department estimates that the bailment program will result in one-time general fund revenue of \$4 million in fiscal 1991.

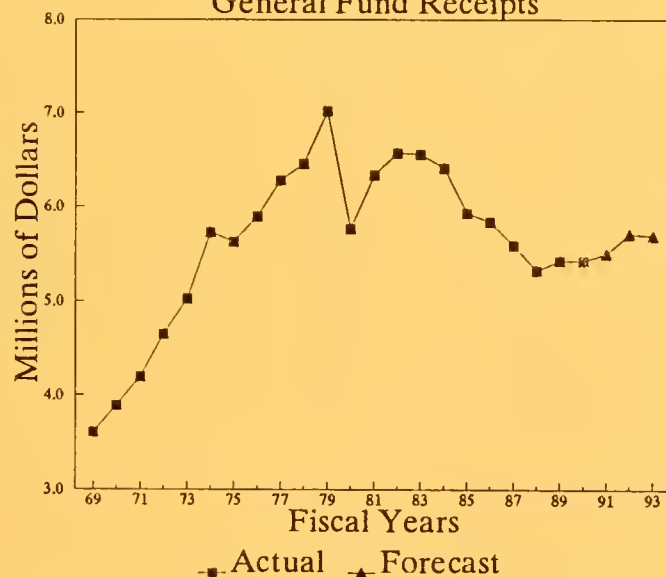
GENERAL FUND REVENUES BY COMPONENT

LIQUOR PROFITS General Fund Receipts



F Y	Total Collections Millions	General Fund Collections Millions	Percent Change
69	\$4.078763	\$3.500000	
70	4.931051	4.653815	32.97%
71	5.225968	4.878745	4.83%
72	6.624576	5.950000	21.96%
73	7.704053	4.500000	-24.37%
74	7.274480	8.675600	92.79%
75	7.521853	7.738305	-10.80%
76	7.104050	7.260551	-6.17%
77	7.314754	7.189862	-0.97%
78	7.576469	6.778951	-5.72%
79	7.788463	7.200000	6.21%
80	6.025915	5.500887	-23.60%
81	6.028851	7.499113	36.33%
82	5.681187	5.750000	-23.32%
83	5.010213	4.500000	-21.74%
84	5.408943	5.782000	28.49%
85	4.340660	4.466000	-22.76%
86	4.408188	4.500000	0.76%
87	3.863635	5.000000	11.11%
88	3.785922	3.633000	-27.34%
89	3.789483	3.600000	-0.91%
90	4.036343	3.500000	-2.78%
91	8.018000	8.018000	129.09%
92	4.363000	4.363000	-45.58%
93	4.302000	4.302000	-1.40%

LIQUOR EXCISE TAX General Fund Receipts



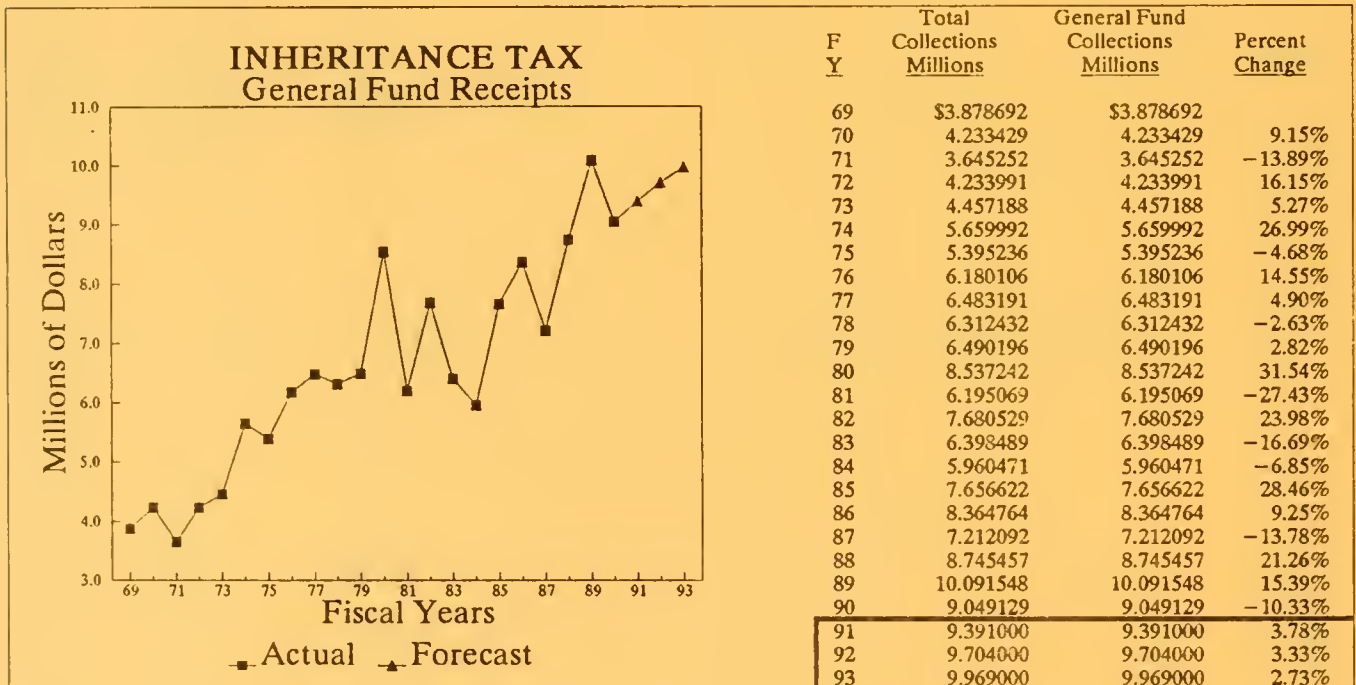
F Y	Total Collections Millions	General Fund Collections Millions	Percent Change
69	\$4.508038	\$3.606190	
70	4.871287	3.892771	7.95%
71	5.256299	4.197793	7.84%
72	5.832888	4.652984	10.84%
73	6.285037	5.022561	7.94%
74	7.054522	5.730242	14.09%
75	7.383326	5.625391	-1.83%
76	7.744188	5.900333	4.89%
77	8.251359	6.286748	6.55%
78	10.528892	6.459007	2.74%
79	11.406432	7.022237	8.72%
80	9.367704	5.764741	-17.91%
81	10.300261	6.340958	10.00%
82	10.675236	6.572066	3.64%
83	10.655421	6.559727	-0.19%
84	10.422641	6.415784	-2.19%
85	9.642852	5.935058	-7.49%
86	9.482576	5.836884	-1.65%
87	9.079530	5.589174	-4.24%
88	8.646707	5.322934	-4.76%
89	8.813624	5.423769	1.89%
90	8.814424	5.428076	0.08%
91	8.938000	5.500000	1.33%
92	9.278000	5.710000	3.82%
93	9.247000	5.691000	-0.33%

GENERAL FUND REVENUES BY COMPONENT

Inheritance Tax

The inheritance tax is imposed on the transfer of any decedent's property, interest in property, or income from property within the state to any other person or corporation except a surviving spouse, or governmental or charitable organization. The tax rate varies from 0 to 32 percent depending on the size of the estate and the relationship of the decedent to the beneficiary. All revenue collected from the inheritance tax is deposited in the general fund.

Since 1980, revenues from inheritance taxes have fluctuated because of federal and state law changes, accounting procedures, and the processing of several large estates. The forecasts for fiscal 1991 through 1993 are based on the underlying trend in revenues since 1969. Even with all federal and state law changes that have been implemented, on the average, annual revenues continue to grow between 2 and 3 percent. This trend is expected to continue throughout the forecast period.



GENERAL FUND REVENUES BY COMPONENT

Metal Mines Tax

The metalliferous mines license tax is imposed on the production of metals, gems or stones in the state. The tax rate is applied to the gross value of the product, which is defined as the market value of the commodity multiplied by the quantity produced.

For tax years beginning after December 31, 1988, the tax rate is as follows:

For concentrates shipped to a smelter, mill, or reduction work:

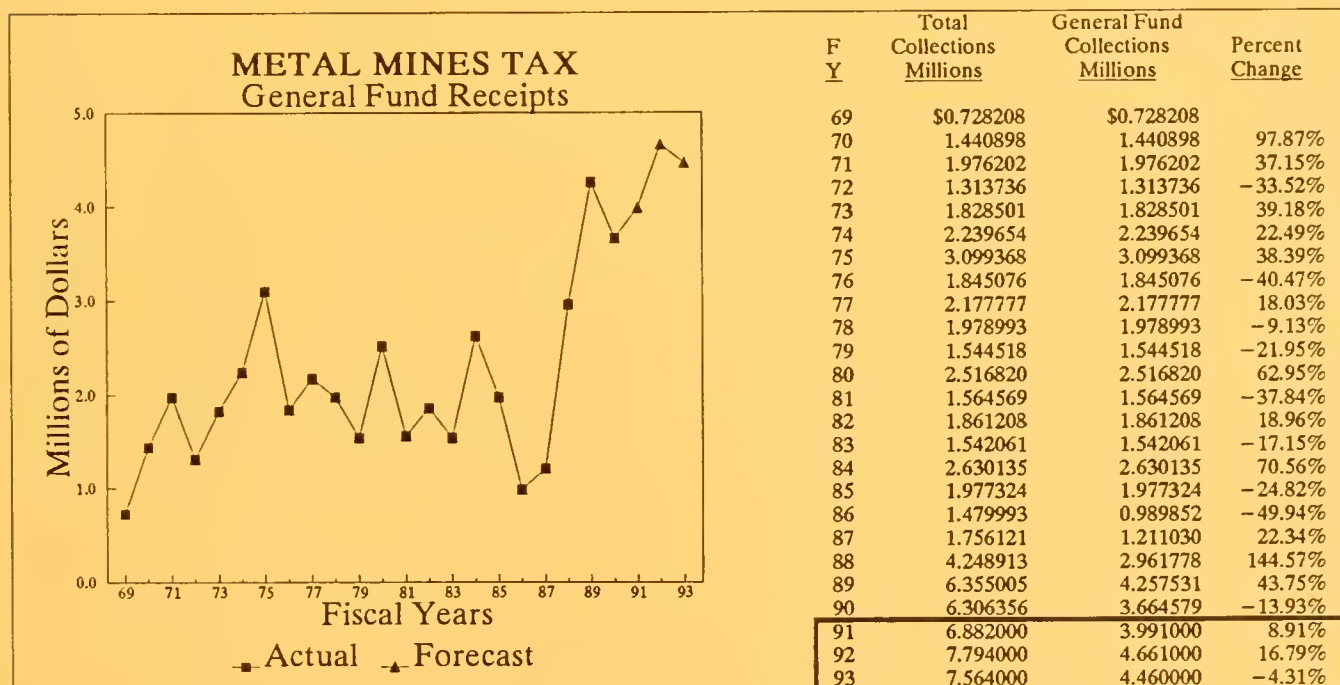
<u>Gross Value</u>	<u>Rate</u>
\$0-\$250,000	Exempt
\$250,001 and Above	1.8%

For gold, silver, or any platinum group metal that is dore, bullion, or matte and that is shipped to a refinery:

<u>Gross Value</u>	<u>Rate</u>
\$0-\$250,000	Exempt
\$250,001 and Above	1.6%

Historically, the metal mines tax has been deposited in the general fund. Beginning in fiscal 1986, one-third of the receipts were deposited in a hard-rock mining trust account. The distribution for collections for tax years beginning after December 31, 1988 is: 1) 58 percent to the general fund; 2) 1.5 percent to the hard-rock mining impact trust account; 3) 15.5 percent to the resource indemnity trust fund; and 4) 25 percent to the county in which the mine is located.

Metal prices, metal production, and the effective tax rate are the major factors that determine the level of metal mines' tax receipts. Prices for gold, silver, copper, lead, zinc, molybdenum, palladium, and platinum are expected to remain relatively constant during the forecast period. Based on information from the major metal producers in the state, production levels for these minerals are expected to increase slightly throughout the forecast period.



GENERAL FUND REVENUES BY COMPONENT

Electrical Energy Tax

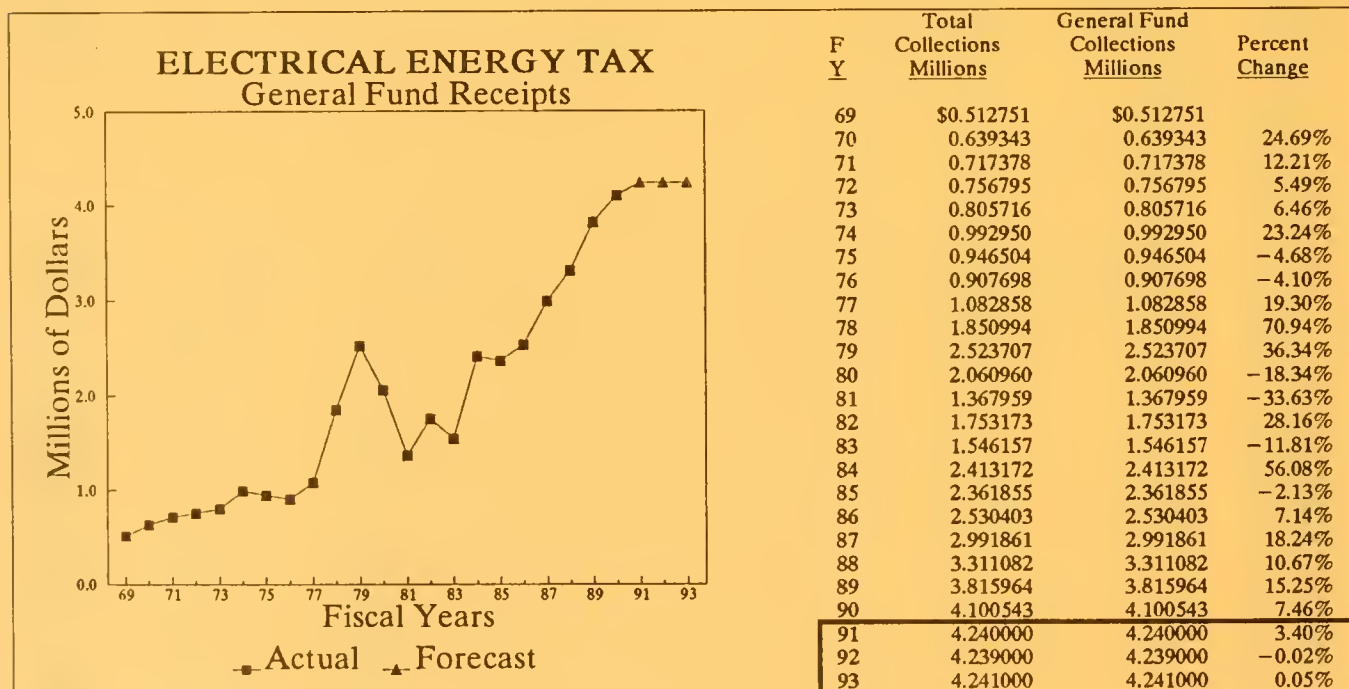
The electrical energy tax is imposed on each person or organization engaged in generating, manufacturing, or producing electrical energy in Montana. The tax of \$.0002 per kilowatt-hour is levied against all electrical energy produced within the state. A deduction is allowed for "actual and necessary" energy used by the plant for the production of the energy. All receipts are deposited in the general fund.

Total electricity production in Montana is projected to increase from fiscal 1990 levels through 1993. Beginning in 1991, the rate of growth is expected to slow. These assumptions are based on

production estimates supplied by the major producers.

Although Colstrip unit 3 had mechanical problems during calendar year 1990, these problems have been resolved and the plant is expected to operate at or near capacity during the 1993 biennium.

Electrical energy taxes may be reduced by an interest differential credit claimed by the producers. This credit is determined by the difference between the actual interest received on energy conservation loans and the average interest rate for home improvement loans. These credits are expected to reduce revenues by approximately \$295,000 per year.



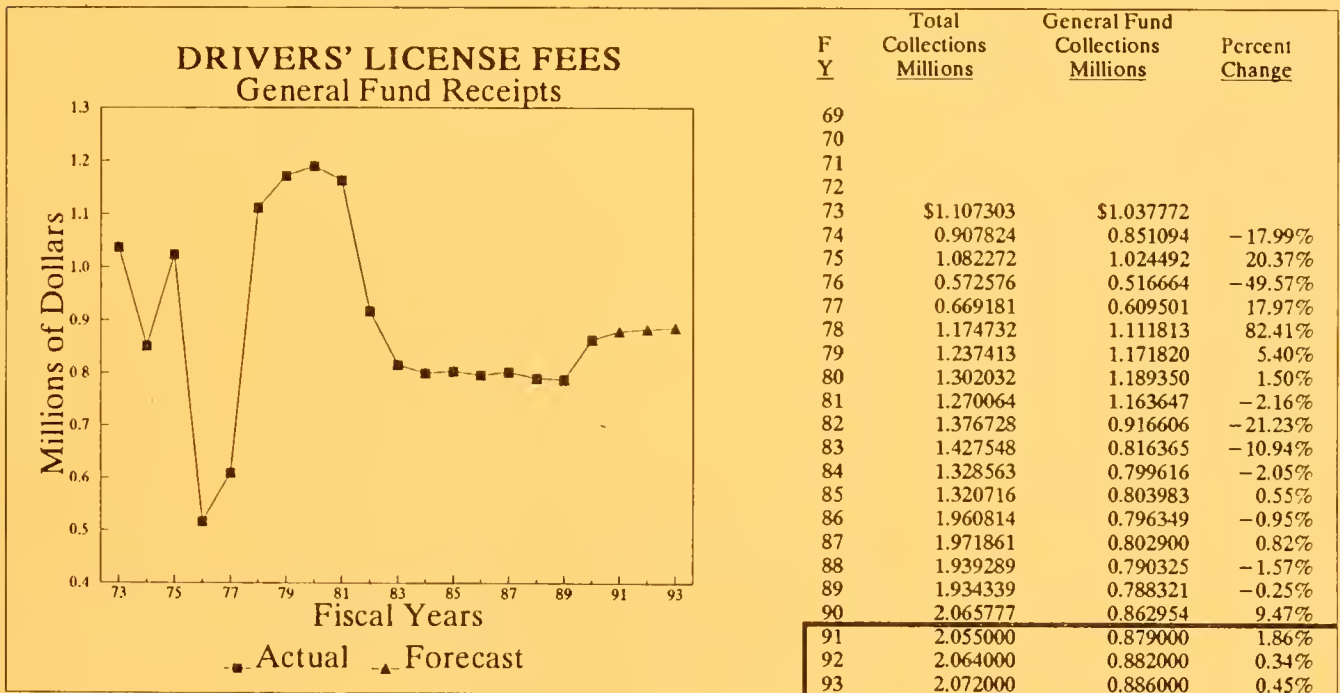
GENERAL FUND REVENUES BY COMPONENT

Drivers' License Fees

A resident of Montana must have a valid driver's license to operate a motor vehicle on any highway in the state. A driver's license is issued only if the applicant passes specified examinations and pays a fee. The fees are collected by motor vehicle division staff or county treasurers and are forwarded to the state treasurer for deposit. Forty percent of the fees collected go to the general fund, 23-1/3 percent to the traffic safety and education account, 33-1/3 percent to the highway patrol retirement account, and 3-1/3 percent to counties or the Department of Justice, depending on who collects the fee.

Drivers' license fees are influenced by Montana population growth in the age cohort 16 years and older. It is estimated that the number of people in this group will increase by approximately 0.5 percent per year. Based on this, growth rate receipts are expected to increase in fiscal 1992 and fiscal 1993. The increase in fiscal 1990 receipts is due to commercial vehicle operator's endorsement fees being deposited to the general fund.

Also included in this component of revenue are motorcycle endorsement fees and duplicate driver's license fees. It is expected that these fees will remain constant throughout the 1993 biennium.



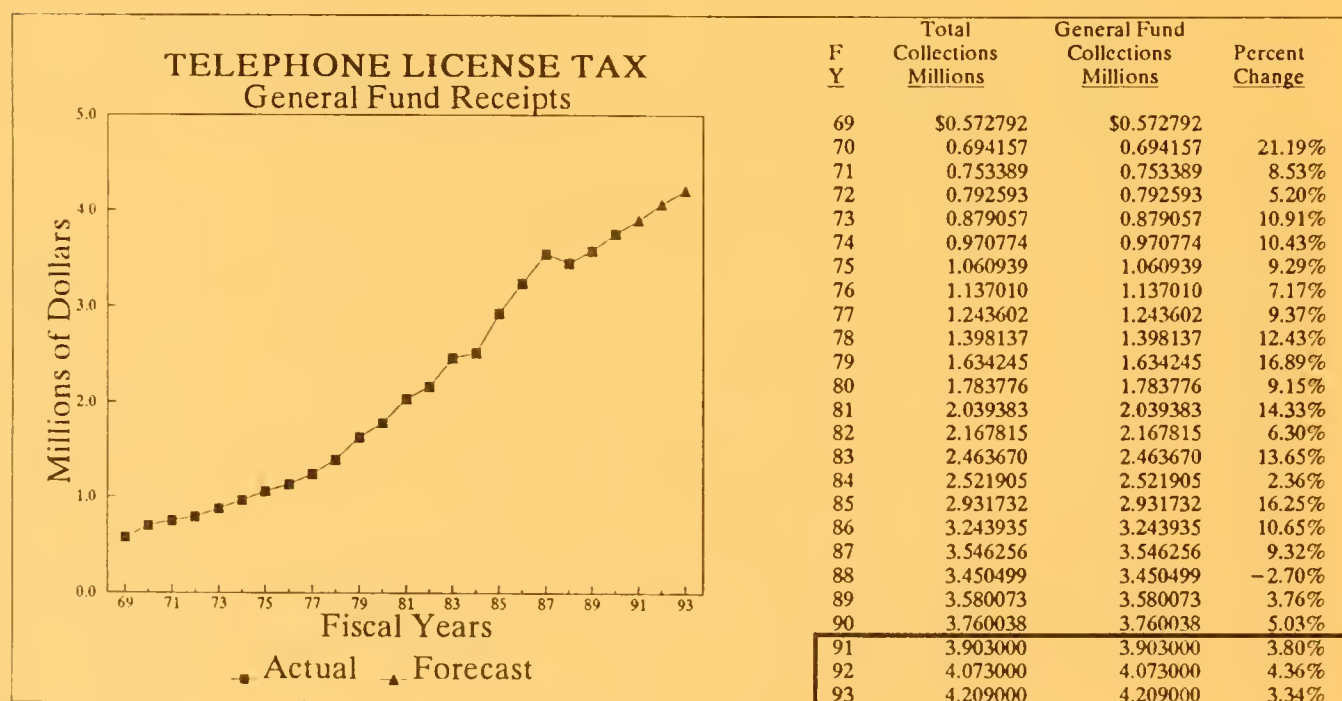
GENERAL FUND REVENUES BY COMPONENT

Telephone License Tax

The telephone company license tax is levied on the gross income earned by any telephone business within the state, including the transmission of telephone messages by line or by microwave equipment. An exemption is allowed for the first \$250 of gross income earned each quarter. The current tax rate of 1.725 percent is applied to the adjusted gross income level. All collections are deposited in the general fund.

Telephone license tax revenues are forecast using the anticipated level of telephone companies gross income. Gross income is dependent on the quantity of services provided and the price of the services offered. As the employment base of the state grows and the business economy expands, the demand for these type of services increases.

Revenue forecasts for the telephone license tax are based on slow employment growth and a slight economic expansion for businesses. These assumptions equate to approximately a 3.8 percent annual growth in gross income.



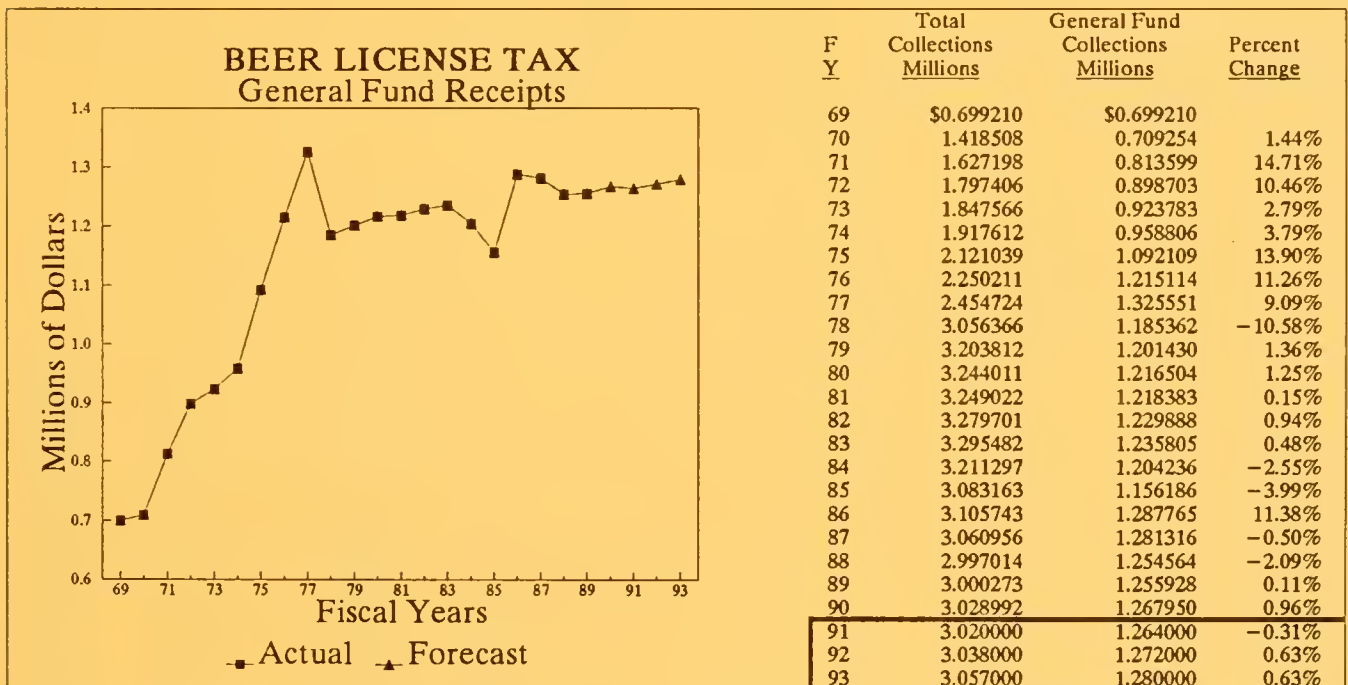
GENERAL FUND REVENUES BY COMPONENT

Beer License Tax

A tax of \$4.30 is levied on each barrel of beer produced in or imported into Montana. Currently, 41.86 percent of the receipts are distributed to the general fund, 34.88 percent to the Department of Institutions' alcoholism account, and 23.26 percent to cities and towns.

Beer consumption on a per capita basis has declined by 1.1 percent in fiscal 1987, 1.6 percent in fiscal 1988, and 0.02 percent in fiscal 1989. However, in fiscal 1990, per capita consumption increased by 1.7 percent, reversing a nine-year declining trend.

Revenues for fiscal years 1991 through 1993 are projected to stabilize with per capita consumption remaining constant.



GENERAL FUND REVENUES BY COMPONENT

Natural Gas Severance Tax

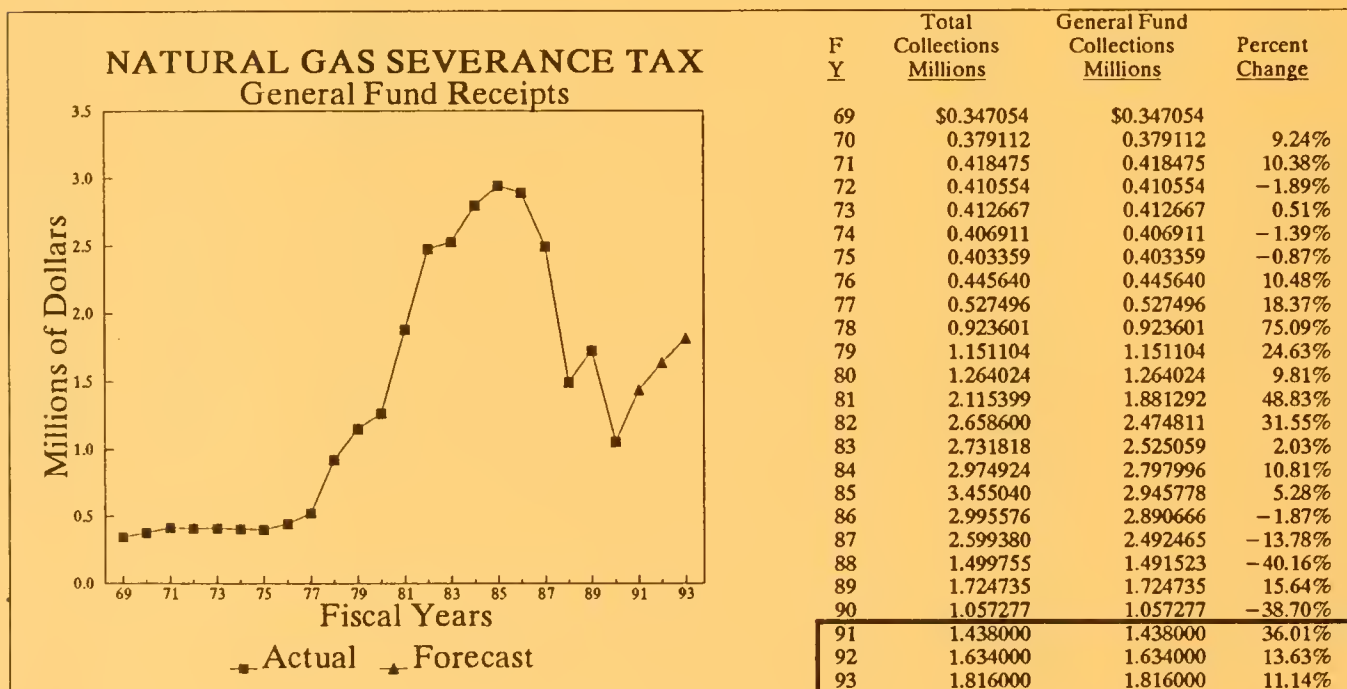
A natural gas severance tax is imposed on the production of natural gas in Montana. The tax rate of 2.65 percent is applied to the total gross value of natural gas produced from each lease or unit. All receipts are deposited in the general fund.

Natural gas production has declined since calendar 1979, but this trend reversed in calendar 1988 and 1989. Total production is expected to increase moderately throughout the forecast period.

Average natural gas well-head prices are expected to decline slightly in calendar 1990 and then begin to increase in calendar 1991 and 1992. By calendar

1991, the natural gas surplus is expected to begin diminishing and world oil prices are expected to be higher. With a more limited supply and more competitively priced fuels, well-head prices should begin to rise.

The decrease in collections beginning in fiscal 1988 resulted from legislation passed in 1987 that: 1) exempted from taxation the first 30,000 cubic feet of average daily production from stripper wells; 2) reduced the tax rate on the remaining production from stripper wells; and 3) exempted from taxation all new production for the first 24 months of production. The tax exemption for new production ended in August 1990, when the price of oil reached \$25 per barrel.

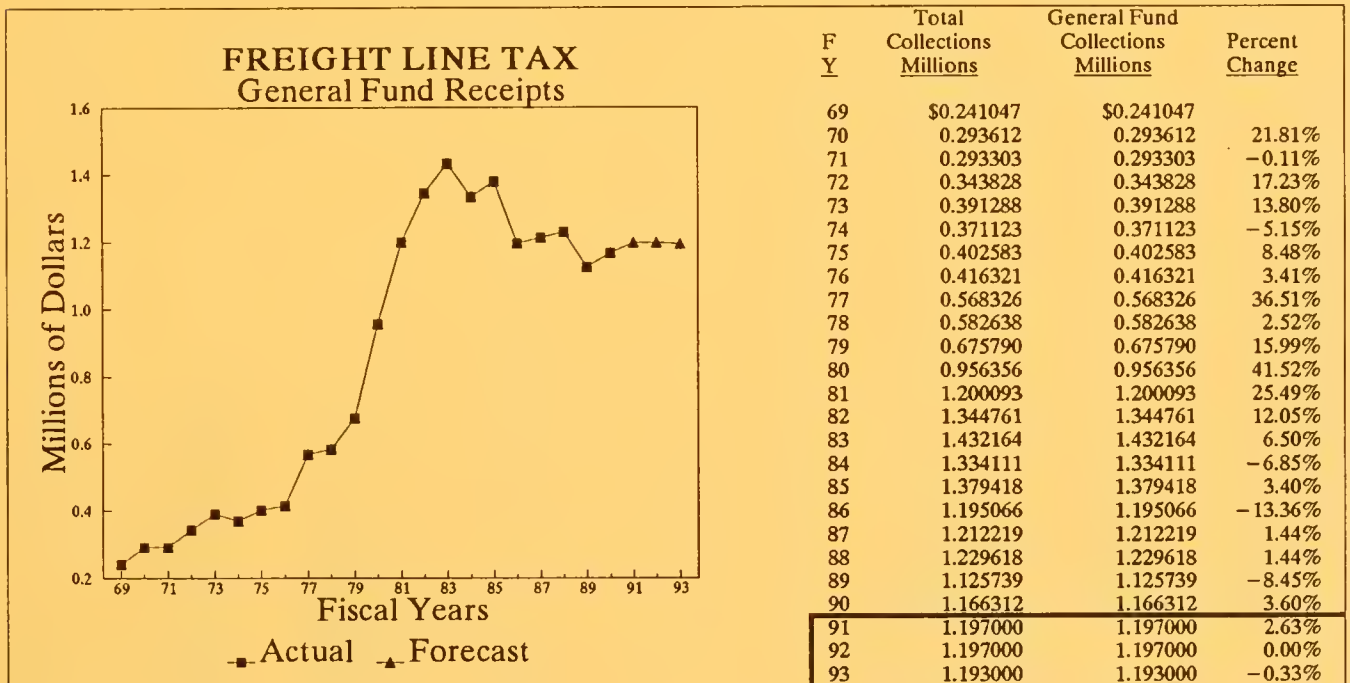


GENERAL FUND REVENUES BY COMPONENT

Freight Line Tax

The freight line company tax is assessed on the gross earnings of every railroad freight line company operating in Montana. Freight line companies are defined as companies operating or leasing railroad freight cars but not owning the rails over which the cars travel. The tax rate of 5.50 percent is applied to the gross earnings derived from business during the calendar year. All collections from this tax are deposited in the general fund.

The deregulation of railroads under the Staggers Act of 1980 and the depressed agricultural years of the 1980's are responsible for the decline in freight line tax receipts. However, revenues for fiscal 1991 are forecast to increase by about 2.6 percent and then remain almost constant in fiscal 1992 and 1993. These forecasts are premised on grain shipments returning to more normal levels and out-of state coal shipments remaining at calendar 1989 levels.

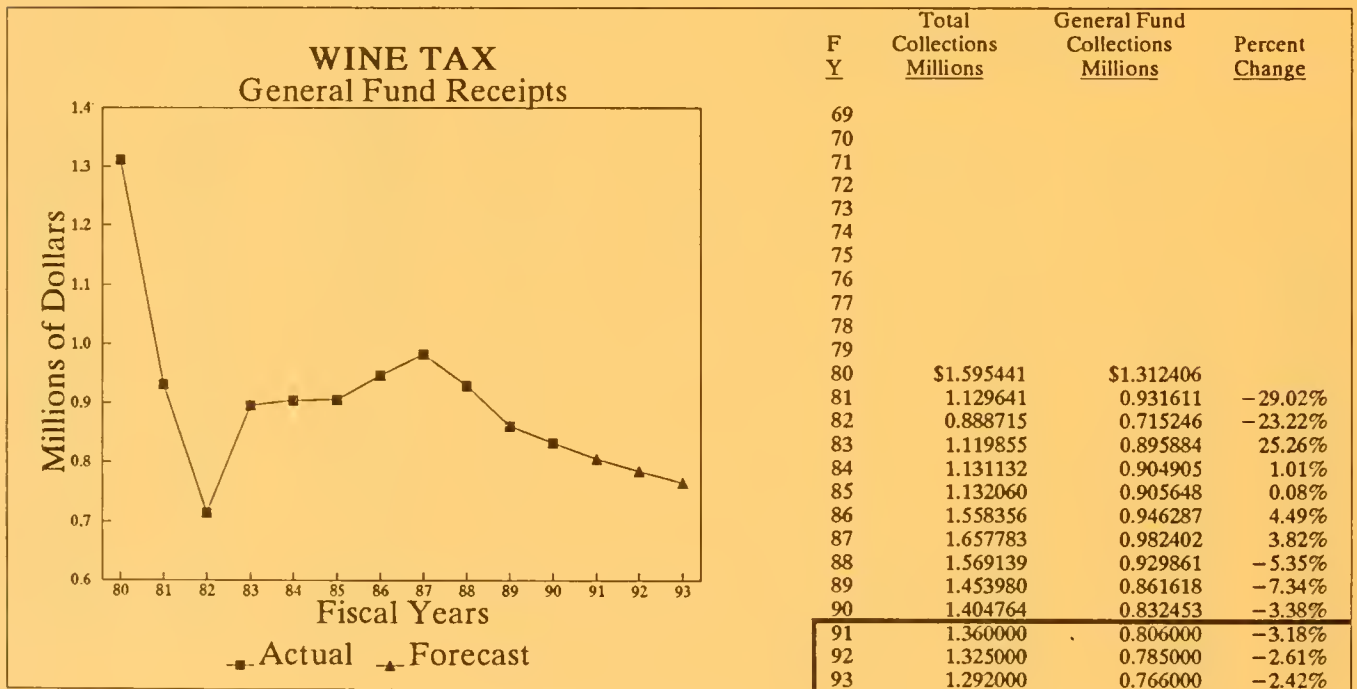


GENERAL FUND REVENUES BY COMPONENT

Wine Tax

A wine tax is levied on table wines imported into Montana by wine distributors or the Department of Revenue. The \$0.27 per liter tax is distributed in the following manner: 59.26 percent to the general fund; 30.89 percent to the Department of Institutions alcoholism account; 9.85 percent to counties and cities.

Since wine taxes are not based on the value of the commodity, revenues are a function of consumption. Montana's per capita consumption declined by 4.9 percent in fiscal 1988, 7.5 percent in fiscal 1989, and 2.7 percent in fiscal 1990. Total revenues for fiscal 1991 through 1993 are projected to continue this trend but at a slower rate of decline.

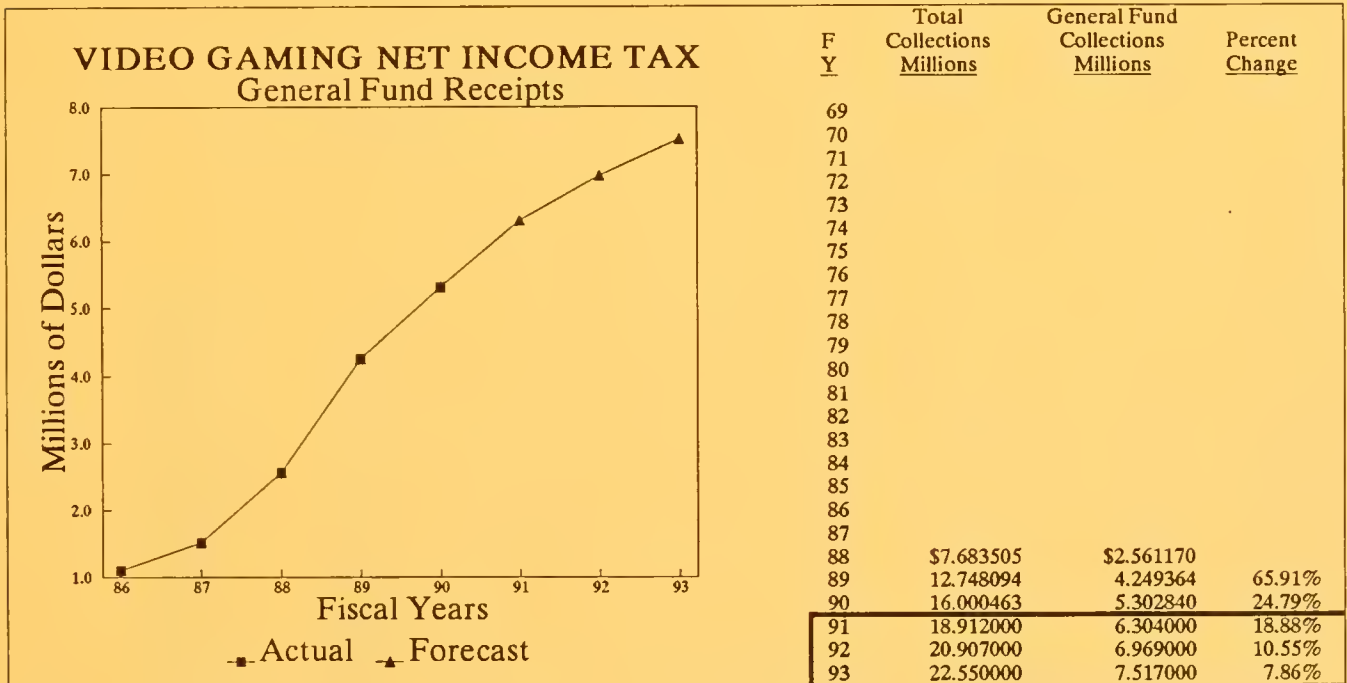


GENERAL FUND REVENUES BY COMPONENT

Video Gaming Net Income Tax

The Department of Justice is authorized to collect a 15 percent tax on the net income of each licensed video gambling machine. One-third of the collections is deposited in the general fund, with the remainder distributed to the incorporated cities and towns or counties in which the licensed machines are located.

In addition, the department collects \$200 for each video gambling machine permit, \$100 to be retained by the department for administrative purposes, and \$100 to be returned to the local government jurisdiction in which the machine is located. An annual license fee of \$1,000 is also charged to manufacturers-distributors of video gambling machines.



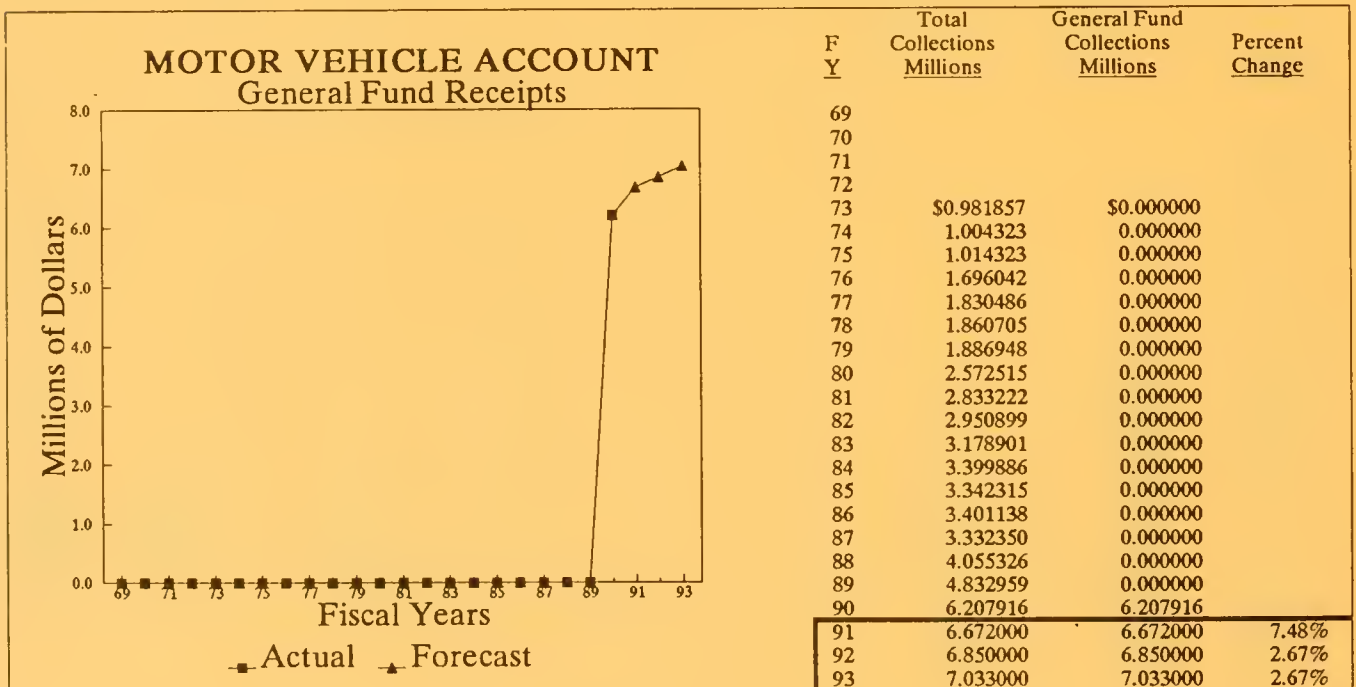
GENERAL FUND REVENUES BY COMPONENT

Motor Vehicle Account

With the enactment of House Bill 744, the 1989 legislature eliminated the state special revenue motor vehicle recording account and required all receipts be deposited in the general fund. Effective July 1, 1989, the fund balance and all of the following fees collected by the Department of Justice are deposited in the general fund:

1) \$4 of the \$6 motorboat or sailboat certificate of ownership or transfer of ownership fee; 2) \$2 of the \$3 snow-

mobile certificate of ownership or transfer of ownership fee; 3) the \$0.50 snowmobile registration fee; 4) all money collected from snowmobile dealer registration and renewal registration fees; 5) all collected from the filing of security interest or other liens against a motor vehicle; 6) \$6 certificate of ownership duplication fee; 7) \$3 additional registration fee for the registration of public-owned vehicles exempt from license or registration fees; and 8) \$20 personalized license plate fee and the \$5 renewal or transfer fee.



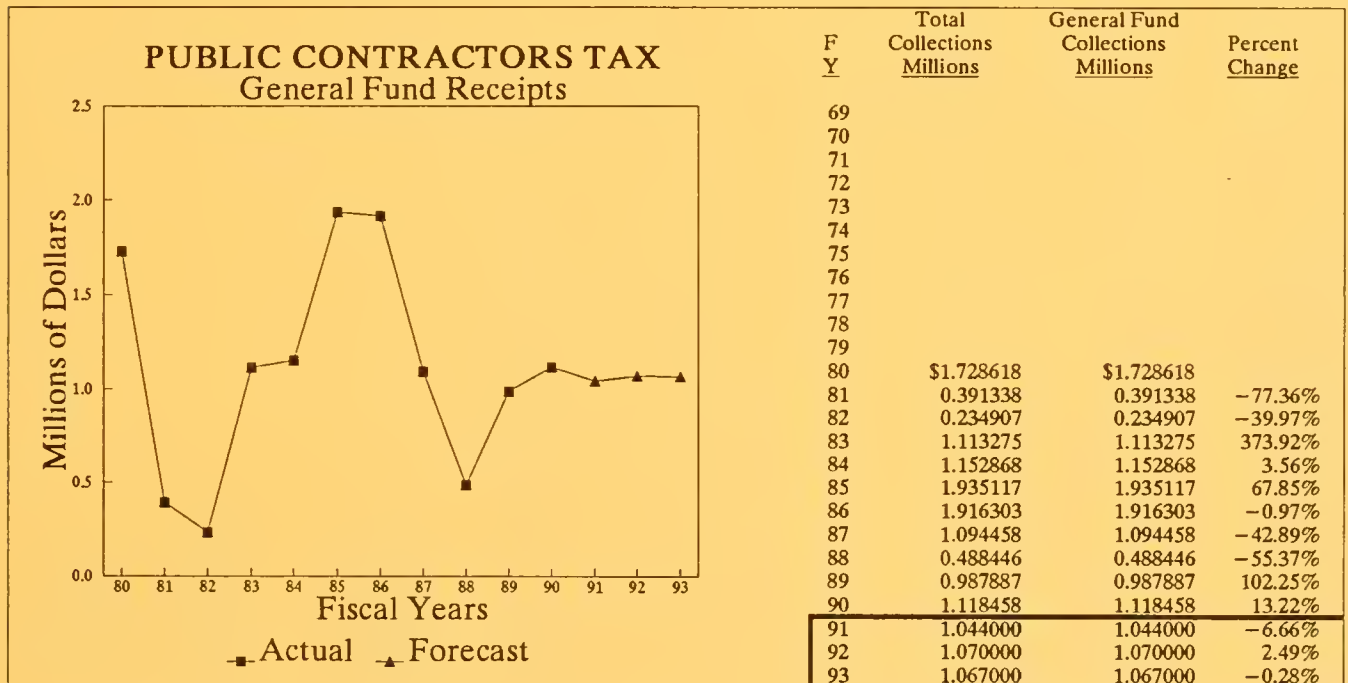
GENERAL FUND REVENUES BY COMPONENT

Public Contractors Tax

Contractors or subcontractors submitting a proposal to preform construction work in Montana for the federal government, state government, or any political subdivision must be licensed as a public contractor. A license is not required in order to bid on contracts in which federal aid is used for highway con-

struction, but a license is required once the bid is awarded.

The 1 percent license fee is applied to the gross receipts of each separate project let by any of the listed public entities. However, the license fee paid may be used as a credit on the contractor's corporate, individual, or personal property tax return.



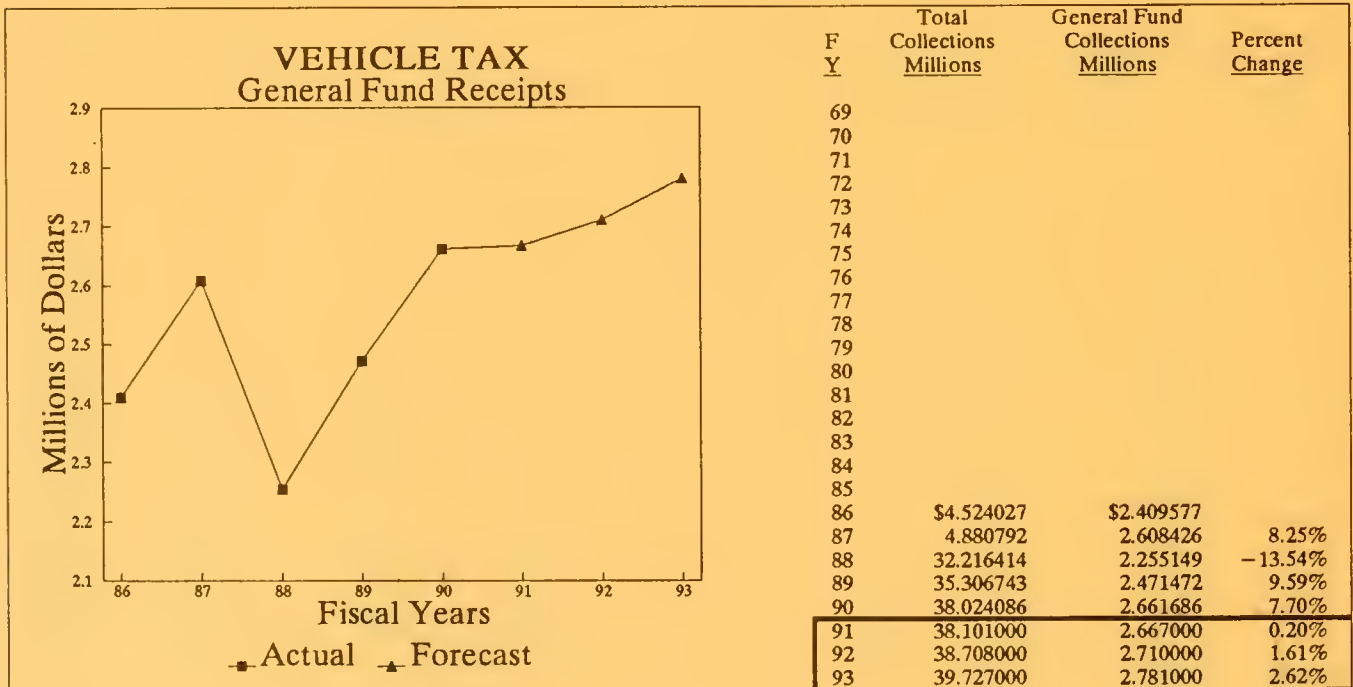
GENERAL FUND REVENUES BY COMPONENT

Vehicle Tax

Motor vehicles are assessed for taxes on the first day of the registration period. The assessment is based on the average trade-in or wholesale value as of January 1. The National Automobile Dealers Association (NADA) Official Used Car Guide, the National Edition of NADA Appraisal Guides Official Older Used Car Guide, or the retail value of the vehicle as determined by the county assessor is used for this purpose.

If the value shown in any of the appraisal guides listed is less than \$500, the value of the vehicle is set at \$500. The amount of tax due is based on 2 percent of the assessed value.

Seven percent of these taxes is remitted to the state general fund for purposes of funding district court expenses. The remainder is distributed based on the relative proportions of mill levies for state, county, school district, and municipal purposes.



GENERAL FUND REVENUES BY COMPONENT

Other Revenue Sources

There are a number of other taxes, fees, and fines that individually generate less than \$2.5 million annually to the general fund.

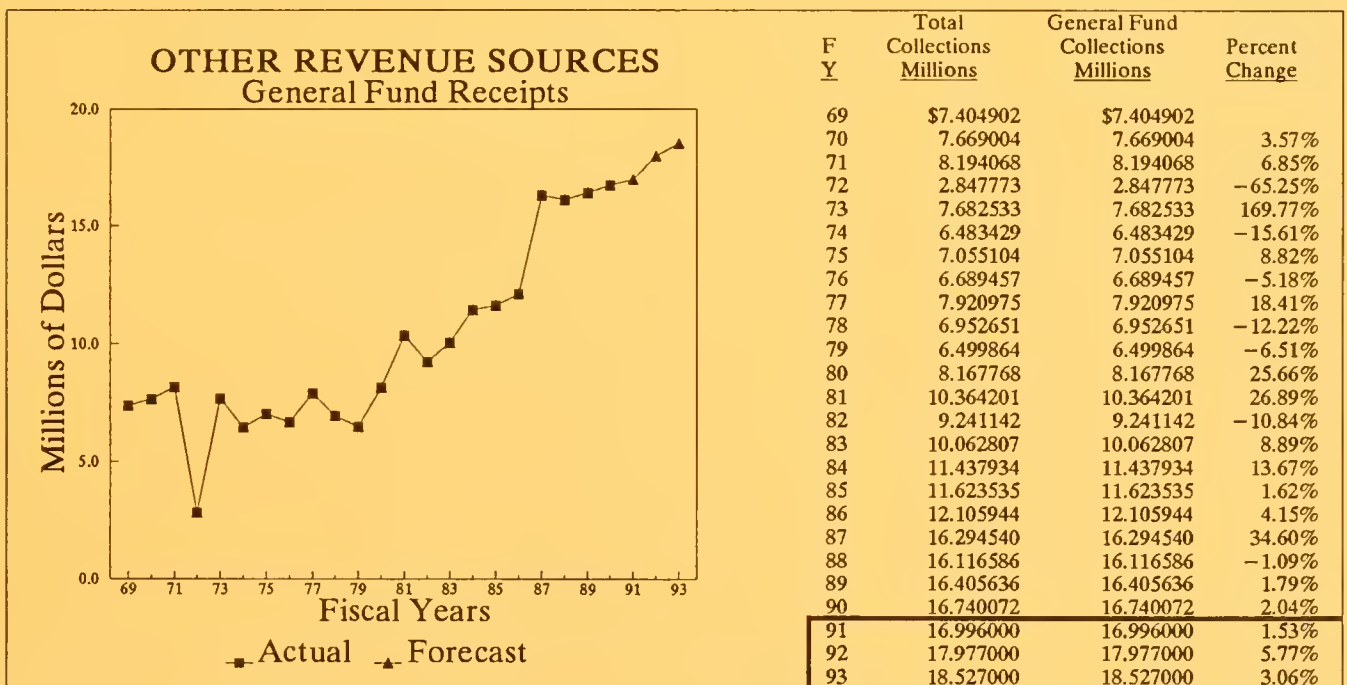
The statutes governing these taxes, fees, and fines are frequently changed, thereby making the comparison of tax years difficult. However, if all the revenue sources are treated as a group, general trends can be identified.

Since fiscal 1981, revenues in this category have grown an average of 5 percent per year after adjusting for one-time receipts. However, from fiscal 1985 to 1986 and from fiscal 1987 to

1988, revenues increased by an average of 3.5 percent. It is assumed this trend will continue throughout the forecast period.

Also included in this category is the anticipated revenue from the public service commission tax and transfers from the capital land grant account. These components are estimated separately and are combined with this category after the 3.5 percent general growth rate is applied.

The revenue collections for fiscal 1987 included proceeds from the sale of the Montana Youth Treatment Center at Billings and the transfer of funds from the crime victims and junk vehicle accounts.



SCHOOL FOUNDATION PROGRAM

State Support for K-12

Support for Montana's elementary and high schools (K-12) is the single largest state expenditure. In fiscal 1991, \$434.4 million of state funds will be distributed to local school districts and counties to help pay for K-12 education. This is nearly equal to the total expenditures from the state general fund. Table 1 shows the total state funds distributed to school districts by category.

Table 1
State Support for K-12 Education, FY91
(In Millions)

<u>Program</u>	<u>State Support</u>
Foundation	\$347.886
Guaranteed tax base	44.382
Special education	33.861
Transportation*	6.458
Other	<u>1.854</u>
Total	\$434.441

*Includes requested FY91 supplemental.

New Equalization Program

State support for K-12 education increased substantially in fiscal 1991, as a new school equalization bill (House Bill 28) passed during the June 1989 special session went into effect. This bill was designed to address a 1989 Montana Supreme Court decision that declared Montana's school equalization program unconstitutional because of wide disparity among school districts in expenditure per student and wide variation in local property tax burdens for support of education.

To address spending disparities and equalize tax burdens, House Bill 28 increased state support and imposed a cap on school district budgets. State support was increased by: 1) increasing foundation schedules; and 2) providing a guaranteed tax base subsidy for a portion of permissive and retirement levies.

SCHOOL FOUNDATION PROGRAM

Increased Foundation Schedules

House Bill 28 significantly increased foundation schedules, as shown in the following table.

Table 2
Increase in Foundation Schedules
FY90 to FY91

High School	21.55%
Elementary (1-299 ANB)	13.90%
Elementary (300 or more ANB)	24.14%

Guaranteed Tax Base

Prior to the implementation of House Bill 28, the state funded a portion of a ten-mill permissive levy. House Bill 28 greatly expanded the permissive mill levy range, defining it as up to 35 percent of the foundation program (schedules plus special education funds).

Beginning in fiscal 1991, House Bill 28 also provides a guaranteed tax base (GTB) subsidy for every permissive mill levied for districts whose taxable value per student is less than the statewide average. The state subsidy per mill is based on the number of students (ANB) and the difference between the district's taxable value per ANB and the statewide average.

In fiscal 1991, 200 districts received GTB support totalling \$30.8 million. Table 3 lists the amounts distributed to the larger school districts. Because urban areas have more ANB and tend to have lower taxable value per ANB, they received the largest share of GTB subsidy. In fiscal 1991, school districts in Montana's seven largest cities received 50 percent of the GTB support. These district have 38 percent of total ANB in the state.

Table 3
Selected GTB Distributions
FY91

<u>Elementary District</u>	<u>GTB Subsidy</u>
Great Falls	\$2,720,025
Billings	2,564,249
Missoula	1,430,845
Helena	1,417,040
Kalispell	741,876
Bozeman	503,351
Butte	498,643

High School District

Great Falls	\$1,400,582
Billings	1,117,547
Missoula	964,496
Helena	827,594
Flathead	733,411
Butte	259,810
Bozeman	143,095

Under House Bill 28, counties also receive GTB subsidies for mills levied to fund districts' retirement costs. In fiscal 1991, 25 counties received GTB subsidy totaling \$13.6 million. Table 4 shows the distributions to the most populous counties. Prior to fiscal 1991, the only state support for retirement was net lottery income, which was distributed to counties to reduce local retirement levies.

Table 4
GTB Retirement Subsidy,
Selected Counties

<u>County</u>	<u>FY91 GTB Subsidy</u>
Cascade	\$2,445,667
Yellowstone	2,227,984
Missoula	1,696,568
Flathead	1,626,847
Lewis and Clark	1,431,651
Silver Bow	775,134
Lake	720,257

SCHOOL FOUNDATION PROGRAM

As a result of these changes, state support increased by more than 40

percent in fiscal 1991 as shown in Table 5.

Table 5
State Support for Foundation, Permissive, and Retirement
(In Millions)

<u>Program</u>	<u>FY89</u>	<u>FY90</u>	<u>FY91</u>	<u>% Increase FY90-91</u>
Foundation	\$223.537	\$230.098	\$347.886	
Permissive/GTB	39.495	40.621	30.766	
Retirement	8.376	2.774	13.616	
Total	\$271.408	\$273.493	\$392.328	43.5%

Funding Sources

The increased state support enacted in House Bill 28 is funded by a 40 mill statewide levy (in addition to the 55 mill county equalization levy), 15 percent of the interest from the permanent coal tax trust, 11.4 percent of total coal severance tax collections, interest on the school equalization account (SEA), and a 5 percent surtax on individual and corporate income taxes in calendar 1990 only.

While House Bill 28 increased the allocation of individual and corporate income taxes to the SEA in fiscal 1991, it eliminated the flow of these revenues to the account beginning in fiscal 1992. Effective July 1, 1991, 100 percent of these major revenue sources will be deposited in the general fund. As a result, the SEA will have insufficient revenue to fund current level school equalization costs in the 1993 biennium, requiring a transfer of over \$230 million from the state general fund. If individual and corporate tax allocations had remained at the fiscal 1991 level, the account would have had a fund balance of over \$50 million in fiscal 1993, assuming foundation schedules continue at their current levels.

Impact on District Levies

In some districts, the increased state support enabled districts to lower their

district levies. Table 6 shows the decrease in mill levies for general fund, comprehensive insurance, and retirement between fiscal 1990 and fiscal 1991 for selected districts. As the table shows, these mill levy reductions occurred in both urban and rural school districts throughout the state.

Table 6
Selected Districts With Reduction
in District Mill Levies
FY90 to FY91

<u>School District</u>	<u>Reduction in Mills*</u>
Great Falls (E & HS)	(94.93)
Helena (E & HS)	(80.15)
Missoula (E & HS)	(47.56)
Anaconda (E & HS)	(75.82)
Cut Bank (E & HS)	(84.58)
Havre (E & HS)	(73.97)
Forsyth (E & HS)	(36.63)
Butte (E & HS)	(84.80)
Turner (E & HS)	(104.74)
Beaverhead (HS)	(20.96)
Roy (HS)	(77.61)
Flathead (HS)	(30.59)
Wisdom (E)	(34.88)
Ekalaka (E)	(49.06)
Miles City (E)	(82.22)
Victor (E)	(23.32)

*Includes mills levied for general fund, comprehensive insurance, and retirement.

SCHOOL FOUNDATION PROGRAM

However, other districts increased their district mills substantially, despite the increase in state support, as Table 7 illustrates.

Table 7
Selected Districts With Increased
District Mill Levies

<u>School District</u>	<u>Increase in Mills*</u>
Hays-Lodgepole (E & HS)	112.88
Columbia Falls (E & HS)	14.93
Box Elder (E & HS)	60.10
Melstone (E & HS)	30.67
Gardiner	67.86
Heart Butte (E & HS)	63.34
Stevensville (E & HS)	26.77
Wolf Point (E & HS)	21.01
Billings (E & HS)	22.47

*Includes mills levied for general fund, comprehensive insurance, and retirement.

Based on preliminary data, OPI calculates that the statewide average district mill levy for general fund, retirement, and transportation increased slightly from fiscal 1990 (72.31 mills) to fiscal 1991 (74.49 mills). This occurred because school districts increased their budgets by approximately 5 percent between fiscal 1990 and fiscal 1991, based upon preliminary data compiled by the Office of Public Instruction.

Table 8
Budgeted General Fund
and Comprehensive Insurance
(In Millions)

<u>Fiscal Year</u>	<u>General Fund/ Comprehensive Insurance</u>
1988	\$483.26
1989	494.63
1990	543.64
1991	569.55

Total GTB payments to school districts in fiscal 1991 (\$30.8 million) were significantly above the amount estimated

during the June 1989 special session (\$12.0 million). That estimate was based on the assumption that school district spending would remain near the fiscal 1988 level. In fact, districts' budgets for fiscal 1991 are nearly 18 percent higher than fiscal 1988 budgets. While this increase is slightly larger than inflation during the period (15 percent), school officials note that it followed a "no-growth" period in which foundation schedules did not increase for two years and property taxes were frozen as a result of Initiative 105.

Under current law, the legislature sets a ceiling on GTB expenditures by limiting their use to permissive and retirement levies, but it does not control the total amount of subsidy granted each year. Since GTB is an "entitlement" to eligible school districts, local school boards' decisions regarding permissive mill levies determine the total amount of state cost.

Statewide total property tax levies for K-12 support increased substantially between fiscal 1990 and 1991, due to the 40 mill statewide levy which went into effect July 1, 1990. Based on preliminary data, OPI calculates that the statewide average mill levy for general fund, retirement, transportation, and mandatory school equalization increased 23.77 mills.

Impact on Per Pupil Disparity

The new school equalization program was enacted to reduce disparities among school districts in spending per pupil. Because the new program just went into effect for the fiscal 1991 school year, no data yet exists to measure expenditures. Based on preliminary comparisons of budgeted general fund expenditures per ANB, OPI has concluded that budgeted per pupil spending disparities have decreased somewhat in elementary districts. The bill appears to have had little impact on per pupil budget disparities in high school districts.

SCHOOL FOUNDATION PROGRAM

Further Equalization

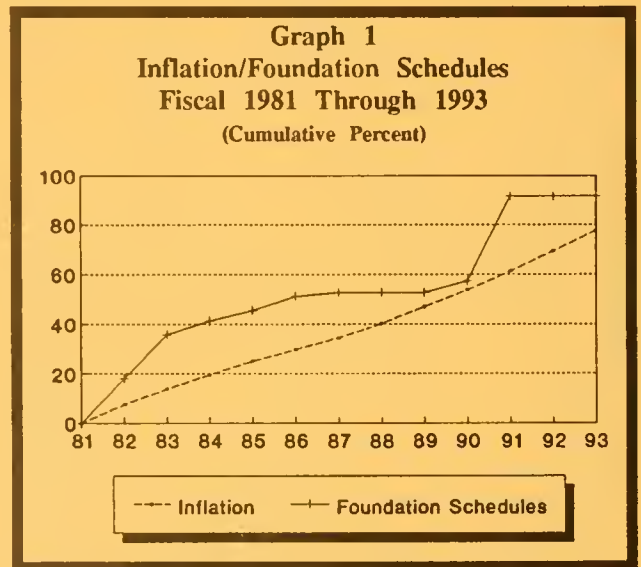
While it is unclear whether the 1989 Montana Supreme Court decision held that the current method of funding school transportation and capital outlay are unconstitutional, the June 1989 special session requested an interim committee (the Legislative Oversight Committee on School Funding Implementation) to study options for equalizing these two areas. After extensive study and hearings, the committee recommends to the 1991 legislature:

1) \$5 million be appropriated to the Board of Public Education for the 1993 biennium for capital outlay grants to school districts. The board would grant these funds to districts with low taxable value to meet accreditation standards; and

2) state support for transportation be standardized between high school and elementary districts. The state and counties would each share 50 percent of "on-schedule" transportation costs. The state would also provide GTB subsidy to eligible counties for mills levied for their share of transportation costs. OPI estimates that state transportation costs would remain near the current level under this proposal.

Historical Perspective

During the period 1981 through 1991, foundation schedule increases (91.58 percent) have exceeded the rate of inflation (61.25 percent), as shown in Graph 1. However, this is largely due to the large increases in the 1983 biennium and in fiscal 1991. As Table 9 shows, schedule increases in recent years have been less than the inflation rate.



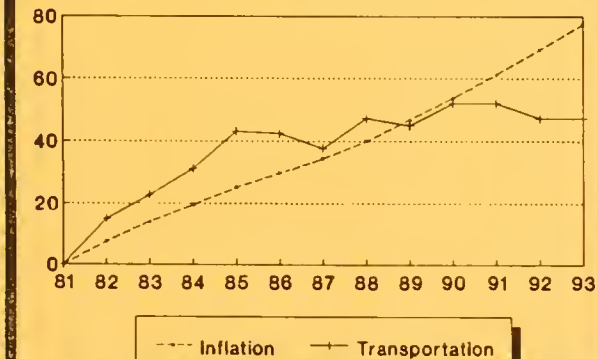
SCHOOL FOUNDATION PROGRAM

Table 9
Historical Percentage Changes
Foundation Schedules & Inflation

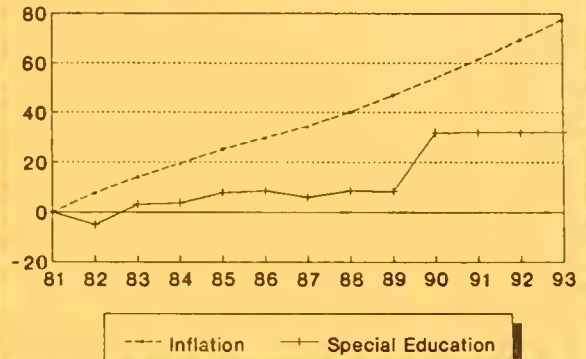
Fiscal Year	Inflation % Change	% Change Schedules
1982	7.68	18.00
1983	5.84	15.00
1984	4.84	4.00
1985	4.75	3.00
1986	3.74	4.00
1987	3.43	1.00
1988	4.31	0.00
1989	4.81	0.00
1990	4.74	3.00
1991	4.85	21.82

State support for transportation and special education have not kept pace with inflation during this period, as shown in Graphs 2 and 3.

Graph 2
Inflation/School Transportation
Fiscal 1981 Through 1993
(Cumulative Percent)



Graph 3
Inflation/Special Education
Fiscal 1981 Through 1993
(Cumulative Percent)



Executive Budget

The Executive Budget proposes a "zero/zero" increase in the school foundation program for the 1993 biennium. It includes funds to maintain the current foundation schedules and an anticipated 3.8 percent increase in GTB costs during the 1993 biennium.

The LFA estimates maintaining current schedules will cost \$0.4 million more during the 1993 biennium than contained in the Executive Budget, based on the estimated enrollment shown in Table 10.

Table 10
Estimated ANB
1993 Biennium

ANB	FY91	FY92	FY93
K-8	105,602	107,605	106,887
9-12	<u>42,409</u>	<u>40,776</u>	<u>41,733</u>
Total	148,011	148,381	148,620

The Superintendent of Public Instruction is requesting an additional \$55.318 million for the 1993 biennium to fund a 4.5 percent increase in the foundation schedules and GTB subsidy in fiscal 1992

SCHOOL FOUNDATION PROGRAM

and a 4.8 percent increase in fiscal 1993. OPI says that this inflationary increase is needed to continue the level of state support enacted in House Bill 28.

The superintendent will also request \$4.6 million additional funds for inflationary increases in special education funding.

LFA Estimates

The following tables shows the projected revenue into the school equalization account and the cost of funding the current schedules and GTB subsidy during the 1993 biennium. Funding these expenditures will require a \$230.442 million general fund transfer to the school equalization account.

Source of Revenue	Actual Fiscal 1990	Estimated Fiscal 1991	Estimated Fiscal 1992	Estimated Fiscal 1993	Estimated FY 90-91	Estimated FY 92-93
State Revenue						
Income Tax	92.787255	124.102000	0.000000	0.000000	216.889255	0.000000
Corporation Tax	18.844917	20.234000	0.000000	0.000000	39.078917	0.000000
Coal Tax	2.579080	5.523000	4.399000	4.380000	8.102080	8.779000
Interest & Income	34.706901	36.961000	38.063000	39.293000	71.667901	77.356000
Us Oil & Gas Royalties	20.240644	25.497000	25.688000	24.829000	45.737644	50.517000
Education Trust Interest	0.713114	0.175000	0.070000	0.072000	0.888114	0.142000
SEA Interest	0.000000	0.629000	0.375000	0.000000	0.629000	0.375000
Permanent Trust Interest	0.000000	6.245000	7.804000	8.098000	6.245000	15.902000
Lottery	0.000000	4.975000	5.997000	7.020000	4.975000	13.017000
Statewide 40 Mills	0.000000	62.573000	63.506000	64.656000	62.573000	128.162000
Miscellaneous	0.142422	7.337000	8.396000	8.719000	7.479422	17.115000
County Levy Surplus	7.895392	0.000000	0.000000	0.000000	7.895392	0.000000
Total State	\$177.909725	\$294.251000	\$154.298000	\$157.067000	\$472.160725	\$311.365000
Statewide Taxable Valuation	\$1,884.550412	\$1,564.317000	\$1,587.654000	\$1,616.398000		
County Revenue						
45 Mills	76.909377	86.037000	87.321000	88.902000	162.946377	176.223000
Elementary Transportation	-3.741193	-3.754000	-3.766000	-3.779000	-7.495193	-7.545000
Cash Reappropriated	4.173075	2.653000	1.116000	0.339000	6.826075	1.455000
Forest Funds	1.627284	1.252000	1.276000	1.304000	2.879284	2.580000
Taylor Grazing	0.117160	0.114000	0.113000	0.112000	0.231160	0.225000
Miscellaneous	5.490026	18.706000	19.772000	20.369000	24.196026	40.141000
High School Tuition	-0.891867	-0.802000	-0.810000	-0.820000	-1.693867	-1.630000
Total County	\$83.683862	\$104.206000	\$105.022000	\$106.427000	\$187.889862	\$211.449000
District Revenue						
Permissive Levy	16.960954	0.000000	0.000000	0.000000	16.960954	0.000000
Light Vehicle Replacement	1.409535	0.000000	0.000000	0.000000	1.409535	0.000000
Total District	\$18.370489	\$0.000000	\$0.000000	\$0.000000	\$18.370489	\$0.000000
Total State, County, District	\$279.964076	\$398.457000	\$259.320000	\$263.494000	\$678.421076	\$522.814000

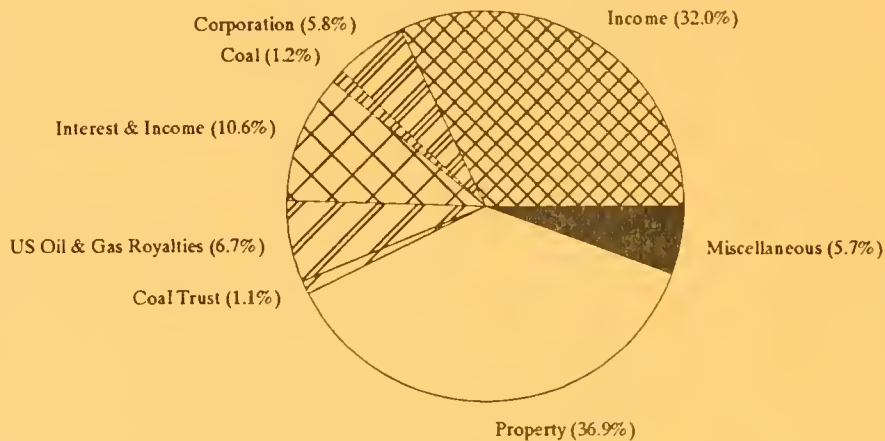
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Estimated School Equalization Fund Balance In Millions						
	Actual Fiscal 1990	Estimated Fiscal 1991	Estimated Fiscal 1992	Estimated Fiscal 1993	Estimated FY 90-91	Estimated FY 92-93
Beginning Fund Balance	\$15.309	\$20.592	\$31.966	(\$100.680)	\$15.309	\$31.966
Receipts						
Estimated Receipts	279.964	398.457	259.320	263.494	678.421	522.814
Education Trust Transfer						
Total Available	\$295.273	\$419.049	\$291.286	\$162.814	\$693.730	\$554.780
Disbursements						
Current Level Schedules	287.393	347.887	347.473	348.691	635.280	696.164
Gauranteed Tax Base		44.382	44.493	44.565	<u>44.382</u>	<u>89.058</u>
Anticipated Disbursements	\$287.393	\$392.269	\$391.966	\$393.256	\$679.662	\$785.222
Adjustments	(1.776)	5.186			3.410	
Residual Equity Transfer	14.488				14.488	
Ending Fund Balance	<u>\$20.592</u>	<u>\$31.966</u>	<u>(\$100.680)</u>	<u>(\$230.442)</u>	<u>\$31.966</u>	<u>(\$230.442)</u>

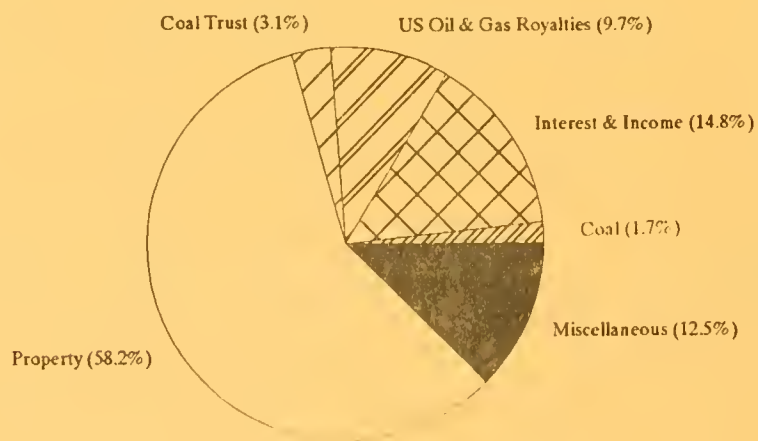
Estimated General Fund Balance In Millions						
	Actual Fiscal 1990	Estimated Fiscal 1991	Estimated Fiscal 1992	Estimated Fiscal 1993	Estimated FY 90-91	Estimated FY 92-93
Beginning Fund Balance	\$67.234	\$89.038	\$69.886	\$95.232	\$67.234	\$69.886
Receipts						
Estimated Receipts	447.962	432.309	562.287	579.599	880.271	1141.886
Total Available	\$515.196	\$521.347	\$632.173	\$674.831	\$947.505	\$1,211.772
Disbursements						
General Appropriations	432.323	409.662	417.944	423.591	841.985	841.535
Foundation Program Support			100.680	129.762		230.442
Property Tax Reimbursement		18.349	18.500	18.500	18.349	37.000
Pay Plan						
Supplementals		15.641			15.641	
Continuing Appropriations		3.693			3.693	
Debt Service		10.955	10.817	10.954	10.955	21.771
Feed Bill		4.500		4.500	4.500	4.500
TRANS Interest						
Reversions		(11.000)	(11.000)	(11.000)	(11.000)	(22.000)
Anticipated Disbursements	\$432.323	\$451.800	\$536.941	\$576.307	\$884.123	\$1,113.248
Adjustments	5.969				5.969	
Foundation Program Reversion						
Residual Equity Transfer	0.196	0.339			0.535	
Ending Fund Balance	<u>\$89.038</u>	<u>\$69.886</u>	<u>\$95.232</u>	<u>\$98.524</u>	<u>\$69.886</u>	<u>\$98.524</u>

SCHOOL FOUNDATION PROGRAM

Foundation Program Revenue Analysis *Contribution By Major Component FY 90-91*



Foundation Program Revenue Analysis *Contribution By Major Component FY 92-93*



EXECUTIVE PAY PLAN PROPOSAL

Salary increase

The Executive Budget proposes an average 4.5 percent salary increase per year during the 1993 biennium for state employees covered under the general pay matrix. However, pay increases for individual employees covered by this pay matrix would vary, as discussed below. The Executive Budget proposes a 3.75 percent per year increase in compensation (salary and health insurance premiums) for employees covered under the blue collar plan, liquor store occupation schedule, and institutional teacher schedule.

As of December 27, the Office of Budget and Program Planning (OBPP) had not calculated the cost of this proposed pay plan increase. The Executive Budget includes only \$10.0 million general fund during the 1993 biennium to pay for this proposed salary increase and the proposed increase in health insurance premiums (discussed below). OBPP estimates that this will fund the cost of increased health premiums and the "progression increase" (discussed below) for employees supported by the general fund. OBPP anticipates that "the majority of the pay plan [costs] will be absorbed within the current level appropriation for personal services in each agency." The Executive Budget does not state whether spending authority in state and federal revenue accounts will be increased to pay for some or all of the pay plan increase for FTE paid from non-general fund sources. OBPP estimates that a 3 percent vacancy savings factor in fiscal 1992 and a 6 percent vacancy savings factor in fiscal 1993 will be sufficient to fund these remaining costs.

Health Insurance Premium Increase

The Executive Budget proposes to increase state contributions for employees' health insurance premiums from the fiscal 1991 level by \$15 per month in fiscal 1992 and \$30 per month in fiscal 1993. This increase will cost approximately \$4.9 million general fund (\$7.7 million total funds) during the

biennium (based on the FTE included in the Executive Budget).

Committee on State Employee Compensation

The 1989 legislature created a Committee on State Employee Compensation to identify problems with Montana's state employee compensation system and recommend options for resolving those problems. Seven of the nine member committee were appointed by the Governor, with the remaining members appointed by the President of the Senate and the Speaker of the House. After extensive research and public hearings, the Committee recommended that Montana's state employee compensation system should: 1) be based upon a market-based pay strategy to attract and retain qualified employees; 2) match the midpoint salaries of each grade in the current statewide pay schedule with average salaries for similar jobs in the surrounding states; and 3) be changed from a step plan to an open range plan (no steps between the entry-level and the maximum salary for the grade). Finally, the committee recommended that state employees should receive a 4 percent general pay increase in each year of the 1993 biennium plus an additional 0.25 percent "progression increase" for every full percentage point that the employee's base salary is below the midpoint salary (market average) of the employee's current grade. The progression increase is designed to move employees' salaries toward the market average, over time.

While the Executive Budget pay plan proposal incorporates the market-based pay philosophy and the open range pay structure recommended by the committee, it does not adopt its pay increase recommendation. The Executive Budget includes a 3 percent per year general pay increase and a 0.125 percent increase for each percent below the midpoint salary for state employees on the general pay matrix.

EXECUTIVE PAY PLAN PROPOSAL

Market-based, Open Range Plan

The Executive Budget proposes that the current 13-step statewide pay plan be repealed and replaced with a market-based, open range plan. Under this proposal, a "market salary" is established for each of the 25 existing grades based upon: 1) a survey of wages for comparable occupations in surrounding states; and 2) the weighted average salary for of all occupations within the grade.

The State Employee Compensation Committee recommends that the salary survey include Montana's "relevant job market": Montana public and private employers and the state governments of North Dakota, South Dakota, Wyoming, Idaho, and Washington. The Department of Administration would conduct this salary survey every two years. Using this survey data, the department would then calculate a "market salary", based upon a weighted average for all occupations within the grade. For example, the "market salary" for grade 15 would include salary survey data from the relevant job market for engineers, computer programmers, budget analysts, and all other occupations within the grade. The salary comparisons for each occupation would be weighted depending on representation within the grade to determine an average "market salary" for the grade.

Under the Executive Budget proposal, an entry salary and a market salary is established for each of the 25 grades for each fiscal year. All employees would receive the 3 percent per year general salary increase. In addition, employees would receive a "progression

increase" of 0.125 percent for each full percent they are below the market salary. For example, if a grade 9 FTE's salary was \$15,662 (step 2) in fiscal 1991, he would receive a 2.0 percent "progression increase" and the 3.0 percent general increase, for a total 5 percent pay plan increase in fiscal 1992. Conversely, a grade 9 FTE that is paid \$18,769 (step 11) in fiscal 1991 is above the market salary for the grade, so he would receive only the 3 percent general pay increase.

Impact On Employees

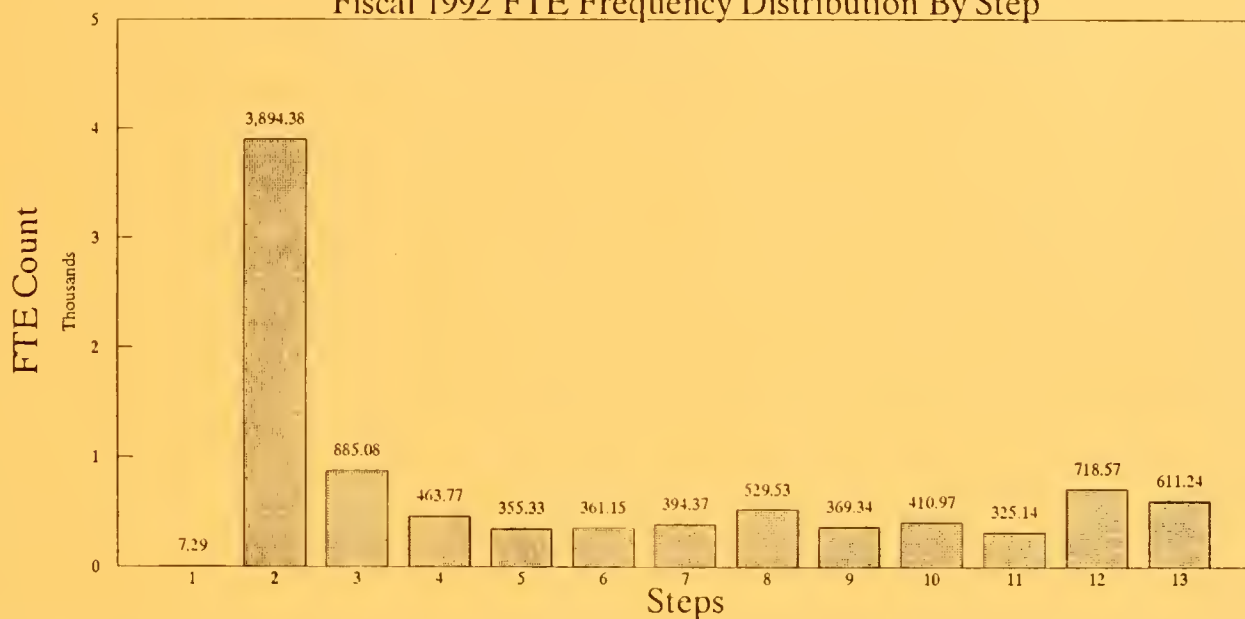
Individual employees pay increases will vary, depending on their proximity to the market salary for their grade. Since over 50 percent of all employees are at step 3 or less, many will receive progression increases under the proposed plan. Graph 1 shows the number of employees at each step in the current pay matrix.

In general, the largest salary increases will go to employees at or near the entry level and those further below the market salary. State employees who have been with the state longer (and thus have more steps under the current system) will generally receive smaller pay increases. Thus, the Executive Budget pay proposal does not address employee progression through the upper half of the pay ranges (above the market salary or midpoint). The committee recommended that the progression increase formula be reviewed in 1993 to address this problem.

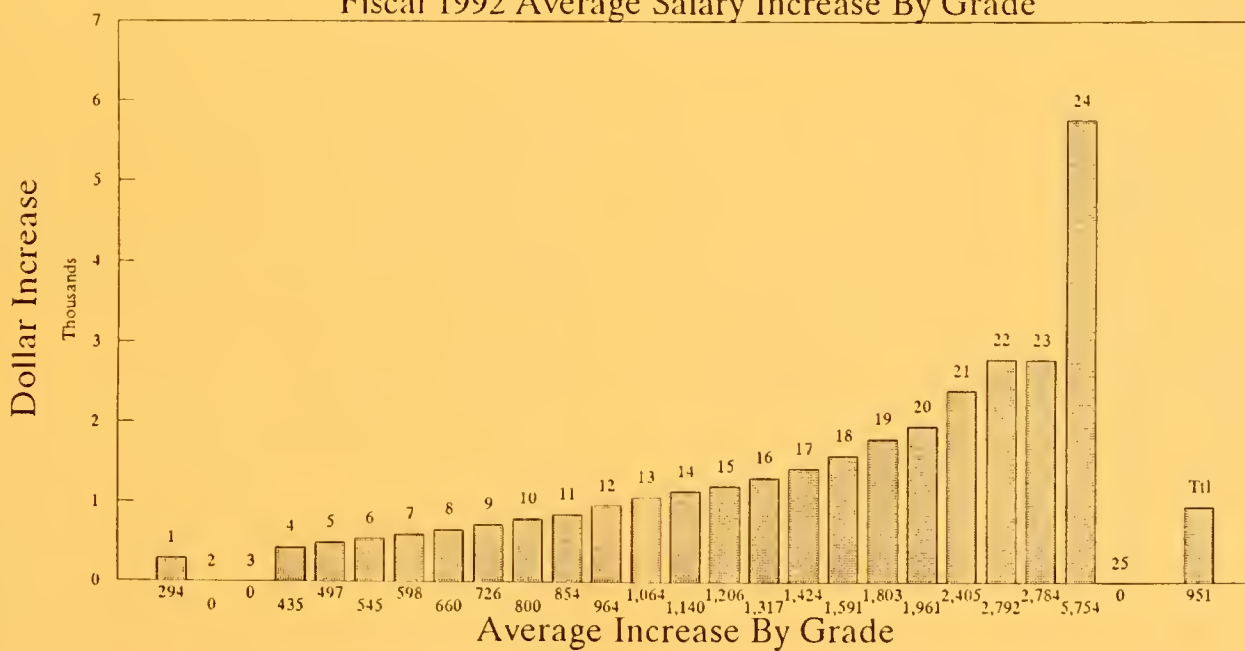
Graph 2 shows the dollar increase each grade of employee would receive under the Executive Budget proposal in fiscal 1992. Employees in higher grades tend to receive the largest dollar increases.

EXECUTIVE PAY PLAN PROPOSAL

STATE SALARY MATRIX
Fiscal 1992 FTE Frequency Distribution By Step



STATE SALARY MATRIX
Fiscal 1992 Average Salary Increase By Grade



EXECUTIVE PAY PLAN PROPOSAL

Since fiscal 1978, the legislature has granted higher percentage increases to state employees in the lower grades, as Table 1 shows. The pay plan proposal in

the Executive Budget is intended to reverse this trend by granting higher percentage increases to state employees furthest below the market.

Table 1
Percentage Increases* in Salaries for Selected Grades
(FY 1976 - 1991)

<u>Fiscal Year</u>	<u>Grade 4</u>	<u>Grade 8</u>	<u>Grade 12</u>	<u>Grade 16</u>	<u>Grade 20</u>
1976	5.0%	5.0%	5.0%	5.0%	5.0%
1977	4.1	4.1	4.1	4.1	4.1
1978	7.0	4.8	3.3	2.8	2.7
1979	7.2	5.1	3.5	3.0	2.8
1980	5.1	4.2	3.6	4.5	5.4
1981	6.7	5.7	4.9	4.9	4.5
1982	12.9	10.8	9.2	8.5	8.5
1983	12.6	10.7	9.2	8.5	8.6
1984	1.7	1.7	1.6	1.6	1.6
1985	1.7	1.7	1.6	1.6	1.6
1986	3.1	2.3	1.7	1.6	1.6
1987	2.5	1.9	1.5	1.4	1.3
1988	0.0	0.0	0.0	0.0	0.0
1989	0.0	0.0	0.0	0.0	0.0
1990	4.1	3.2	2.5	2.5	2.5
1991	4.0	3.1	2.5	2.5	2.5

*Excludes step increases and increases in the employer contribution rate for group benefits

Source: Department of Administration, Personnel Division

Historical Perspective

Total Compensation

Over the period 1979-1991, growth in state employee compensation has remained at or below inflation, as reflected by the Consumer Price Index (CPI). Adjusted for inflation, an employee who started as a grade 8, step 1 employee in 1979 and is a grade 8, step 9 employee in fiscal 1991 received approximately the same amount of compensation (salary and health insurance premium) in fiscal 1991 as he did in fiscal 1979. A grade 14 employee will experience a 10 percent reduction in compensation (in constant dollars).

Compensation for entry level positions has fallen more dramatically over the

period. Compensation for an entry level grade 8 employee in fiscal 1991 will be approximately 8 percent less (in constant dollars) than it was in fiscal 1979. For an entry level grade 14 employee, the decline is even greater--20 percent less compensation (in constant dollars) in fiscal 1991 than in fiscal 1979.

The 1981 legislature authorized large pay increases (averaging over 10 percent) in both fiscal 1982 and fiscal 1983 in recognition of the double digit inflation rates in fiscal 1979-1981 that had eroded employees' purchasing power. Between fiscal 1982-1987, state employees' compensation increased slightly faster than inflation. When the pay freezes began in fiscal 1988, state employees' compensation declined relative to inflation.

EXECUTIVE PAY PLAN PROPOSAL

Health Insurance Premium

During the last decade, the state contribution for health insurance has equaled or exceeded the premium

increase. As a result, state employees paid less in out-of-pocket costs for dependent coverage between 1984 and 1990 than in 1983.

Monthly Health Insurance Premium and Employer Contribution History Insurance Years 1980 to 1993

<u>Year</u>	<u>State Share</u>	<u>Core Plan Premium</u>	<u>Additional Premium for Family Coverage</u>	<u>Employee Cost for Family Coverage*</u>
1980	\$50.00	\$45.00	\$33.76	\$28.76
1981	60.00	55.00	39.40	34.40
1982	70.00	65.00	47.84	42.84
1983	80.00	77.67	56.93	54.60
1984	90.00	83.70	57.00	50.70
1985	100.00	93.70	57.00	50.70
1986	105.00	96.20	57.00	48.20
1987	115.00	101.20	57.00	43.20
1988	115.00	101.20	57.00	43.20
1989	115.00	101.20	57.00	43.20
1990	130.00	116.20	57.00	43.20
1991	150.00	136.20	67.00	53.20

*Out-of-pocket costs.

However, due to increasing medical costs and a declining balance in the state's self-insurance group health insurance program, the Department of Administration increased dependent premiums by \$30 per month in fiscal 1991 and reduced benefits. This increase (which was funded by a \$20 increase in state contribution and a \$10 increase in employee costs for dependent coverage) increased state employees' "out-of-pocket" costs for the first time since 1983.

(For a full discussion of the state's health insurance program, see pages A-134 through A-137).

Impact on State Agency Budgets

Determining the costs of the Executive Budget pay proposal is complex, since it requires a calculation of individual employees' proximity to the adjusted market salary for their grades. As of December 27, OBPP had not yet determined

the estimated cost of the "progression increases" contained in its pay proposal.

It anticipates that general fund costs of the "progression increase" will be under \$5 million. Since, however, over 50 percent of all employees are at step 3 or less, the total cost may be considerably higher.

The cost of the pay plan proposal will vary for individual state agencies, since final costs depend on the salary increase for each individual employee. In general, costs will be higher for agencies with more employees far below market salary, and lower for agencies who have more employees near or above market salaries for their grades.

The Executive Budget does not outline a plan for providing additional pay plan funds for:

- 1) small agencies;

EXECUTIVE PAY PLAN PROPOSAL

2) the university system's teaching faculty; or

3) direct care staff at the state institutions and guards at the state prisons.

Historically, the legislature has exempted these categories from vacancy savings or provided additional pay plan funds to allow them to maintain services while funding personal services costs within existing budgets.

The Executive Budget includes funds for the proposed increase in health benefits and a portion of the progression increases. It anticipates that agencies will use "organizational efficiencies" and vacancy savings to fund the rest of the progression increases and the 3 percent per year general salary increase. OBPP anticipates this will require a 3 percent vacancy factor for most agencies in fiscal 1992 and a 6 percent vacancy factor in fiscal 1993.

The 6 percent vacancy savings factor in fiscal 1993 is a higher level of vacancy savings than agencies have had to absorb in recent fiscal years (with the possible exception of fiscal 1987). In several biennia, pay plan increases have not been fully funded, requiring agencies to absorb part of their cost through vacancy savings and program reductions.

♦The 1981 legislature appropriated 96.5 percent of the amount required to fully fund the pay plan. Combined with vacancy savings, the net vacancy savings factor was 4.4 percent for fiscal 1982 and 4.3 percent for fiscal 1983 for all agencies except the university system, vocational-technical centers, and community colleges.

♦The 1983 legislature fully funded current level personal services, but required agencies to fund a portion of the 4 percent per year pay increase through vacancy savings.

♦The 1985 legislature fully funded the pay plan, but imposed at least a 4 percent per year vacancy savings factor on most state agencies with more than 10.0 FTE. The only exceptions were for instructional contract faculty of the university system and prison security guard positions.

♦During the 1987 biennium, agencies had to absorb a higher vacancy saving rate. Due to falling revenues, an executive order reduced fiscal 1986 appropriations by 2 percent. In the June 1986 special session, the legislature reduced most agencies fiscal 1987 budgets by 5 percent and eliminated the funding for that year's 3.25 percent pay increase.

♦During the 1989 biennium, there was no pay plan increase, but agencies were generally budgeted at a 4 percent vacancy savings.

♦The 1989 legislature provided full funding for both current level services and the pay plan but limited the transfer of personal services budget to operations.

Current law includes language that will help agencies absorb unfunded pay plan increases within current level budgets. Section 2-18-106, MCA, provides: "Unexpended agency appropriation balances in the first year of the biennium may be transferred to the second year of the biennium to offset the costs of pay increases."

The Executive Budget anticipates agencies will use this authority, transferring all unexpended funds in fiscal 1992 to fiscal 1993 to help fund the compounded pay plan increase in the second year. Because the Executive Budget projects agencies will need all available appropriation authority to absorb the unfunded portion pay plan increase, it anticipates no general fund reversions during the 1993 biennium.

FTE COMPARISON

Increased FTE

The Executive Budget proposes to increase the number of FTE by 72.29 in fiscal 1992 and 56.18 in fiscal 1993 from the fiscal 1991 level authorized by the legislature. The proposed FTE reduction in the Department of Institutions and the FTE eliminated through privatization efforts are offset by the 387.47 new FTE requested as Executive Budget modifications.

Following is a table showing the FTE authorized by the legislature for the 1991 biennium and the number of FTE included in the Executive Budget.

In its comparison of FTE, the Executive included FTE added through budget

amendments in the fiscal 1990 and fiscal 1991 FTE totals (Executive Budget Book, page S-24). The Executive Budget compared the total FTE in the 1991 biennium with recommended FTE for the 1993 biennium. As a result, the Executive Budget showed a decrease in the number of FTE. Since the FTE that are routinely added by budget amendments are temporary FTE, the following table compares only those FTE authorized by the legislature. Based on this comparison, the Executive Budget would increase the number of FTE authorized by the legislature during the 1993 biennium.

FTE COMPARISON

Agency Name	Executive Current Level	Executive Current Level	Executive Current FTE	Executive Modified FTE	Executive Total FTE	Executive Current FTE	Executive Modified FTE	Executive Total FTE
	Fiscal 1990	Fiscal 1991	Fiscal 1992	Fiscal 1992	Fiscal 1992	Fiscal 1993	Fiscal 1993	Fiscal 1993
Legislative Auditor	60.00	60.00	60.00	9.00	69.00	60.00	9.00	69.00
Legislative Fiscal Analyst	18.00	18.00	17.50		17.50	18.00		18.00
Legislative Council	43.70	53.70	43.70	2.00	45.70	53.70	2.00	55.70
Environmental Quality Council	6.50	6.50	6.50		6.50	6.50		6.50
Consumer Counsel	4.25	4.25	4.25		4.25	4.25		4.25
Judiciary	90.50	80.50	89.50	2.00	91.50	89.50	2.00	91.50
Governors Office	65.20	60.20	59.20		59.20	59.20		59.20
Secretary of States Office	26.00	26.00	26.00		26.00	26.00		26.00
Commissioner of Political Prac	3.00	3.00	3.00		3.00	3.00		3.00
State Auditors Office	66.00	67.50	67.00	2.00	69.00	67.00	2.00	69.00
Office of Public Instruction	126.40	128.25	126.40	7.33	133.73	126.40	7.33	133.73
Billings Vo Tech	46.87	46.87	42.70		42.70	42.70		42.70
Butte Vo Tech	38.40	38.40	38.77		38.77	38.77		38.77
Great Falls Vo Tech	57.00	57.00	81.00		61.00	61.00		61.00
Helena Vo Tech	60.00	60.00	56.00		56.00	56.00		56.00
Missoula Vo Tech	61.80	61.80	67.30		67.30	67.30		67.30
Crime Control Division	16.00	16.00	16.00	2.00	18.00	16.00	2.00	18.00
Highway Traffic Safety	8.50	8.50	8.50		8.50	8.50		8.50
Department of Justice	602.00	600.50	600.50	28.75	627.25	600.50	27.00	627.50
Public Service Regulation	46.00	46.00	46.00	1.00	47.00	46.00	2.00	48.00
Board of Public Education	4.00	4.00	4.00		4.00	4.00		4.00
Commissioner of Higher Education	60.15	60.15	60.15	5.30	65.45	60.15	4.80	64.95
University of Montana	755.74	759.46	815.62	0.72	816.34	815.62	0.72	816.34
Montana State University	921.17	927.49	947.98	0.83	948.81	947.98	0.83	948.81
Mont College of Min Sc & Tech	208.58	212.47	210.56	0.30	210.86	210.56	0.30	210.86
Eastern Montana College	312.91	313.72	321.86	0.36	322.22	321.86	0.36	322.22
Northern Montana College	184.37	184.03	179.77	0.31	180.08	179.77	0.31	180.08
Western Montana College	101.82	102.04	108.56	0.30	108.86	108.56	0.30	108.86
Agricultural Exper Station	259.67	258.67	259.67		259.67	259.67		259.67
Cooperative Extension Service	115.77	115.77	115.77		115.77	115.77		115.77
Forestry & Cons Exper Station	16.09	16.09	16.09		16.09	16.09		16.09
Bureau of Mines					0.00			0.00
School For The Deaf & Blind	91.54	84.54	84.54	1.61	86.15	84.54	1.61	86.15
Montana Arts Council	7.97	7.97	7.97		7.97	7.97		7.97
Library Commission	28.78	29.35	28.50	1.00	29.50	28.50	1.00	29.50
Montana Council On Vocational	2.50	2.50	2.50		2.50	2.50		2.50
Historical Society	49.28	48.78	48.28		48.28	48.28		48.28
Fire Services Training School	5.00	5.00			0.00			0.00
Department of Fish, Wildlife & Parks	526.61	541.42	528.52	27.49	556.01	528.52	27.49	556.01
Department Health & Environ Sciences	300.35	312.36	172.07	20.00	192.07	172.07	20.00	192.07
Department of Highways	1,933.83	1,933.83	1,980.82	1.00	1,981.82	1,980.82	1.00	1,981.82
Department of State Lands	328.92	338.69	334.89	13.40	348.09	334.69	18.18	352.87
Department of Livestock	116.71	118.71	118.71	5.00	123.71	116.71	5.00	121.71
Department Nat Resource/Conservation	255.86	262.20	393.23	58.12	451.35	393.23	60.50	453.73
Department of Revenue	799.99	800.58	758.58	11.33	769.91	758.58	11.00	769.58
Department of Administration	341.59	329.59	318.39	4.50	322.89	322.39	4.50	326.89
State Comp. Mutual Ins. Fund	94.18	185.25	175.00	41.90	216.90	174.00	41.90	215.90
Public Employees Retirement Bd	20.00	20.00	20.00		20.00	20.00		20.00
Teachers Retirement Board	11.50	11.50	11.50		11.50	11.50		11.50
Department of Agriculture	90.33	92.59	91.59	5.12	98.71	91.59	5.50	97.09
Department of Institutions	2,074.20	2,068.40	1,811.89	73.01	1,884.90	1,766.35	80.73	1,847.08
Department of Commerce	333.93	332.70	307.21	9.00	316.21	307.21	9.00	316.21
Labor & Industry	643.09	629.50	629.50	9.00	638.50	629.50	9.00	638.50
Adjutant General	97.75	97.75	97.75		97.75	97.75		97.75
Department Social & Rehab Services	884.70	978.72	892.70	6.00	890.70	891.95	9.00	900.95
Department of Family Services	585.37	518.99	581.49	21.11	582.80	561.49	21.11	582.60
Totals	13,990.35	14,151.78	13,855.28	368.79	14,224.07	13,820.49	387.47	14,207.96

TRUST FUNDS--INTEREST AND BALANCES

Trust Fund Balances

Montana has a number of constitutional and statutory trusts that provide interest to fund current state government operations. While past legislatures spent the principal of the education trust and slowed the flow of revenue into the park acquisition trust for several years, substantial balances

remain. By the end of the 1993 biennium, under current law, these trust balances will be near \$1 billion.

Table 1 shows the history of the six major trusts since fiscal 1973. Forecasted amounts are shown for fiscal 1991 through fiscal 1993. Following the table is a description of each trust and the income it generates.

Table 1
Trust Fund Balances
FY 1973-1993

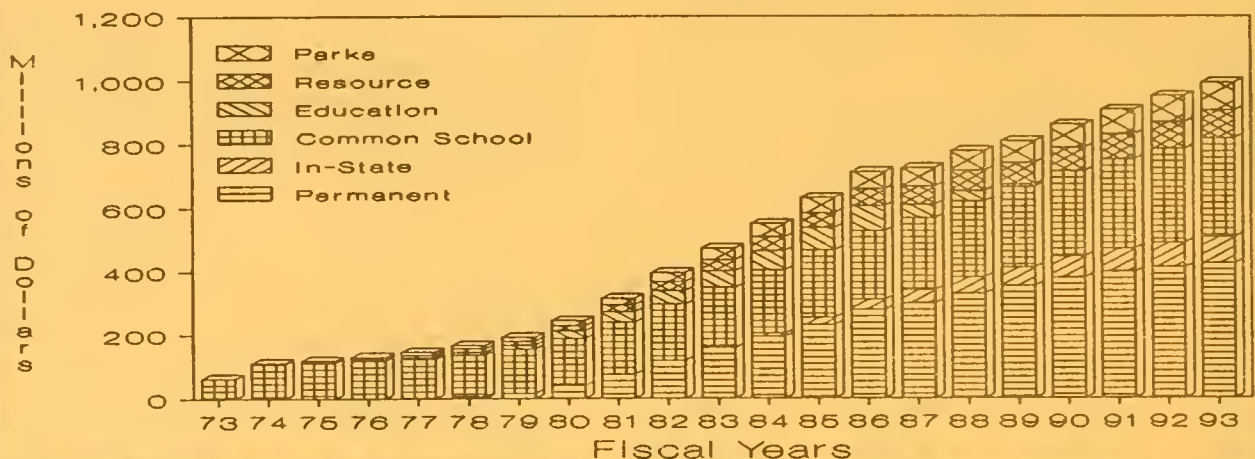
<u>Fiscal Year</u>	<u>Permanent Coal Tax Trust Fund</u>	<u>In-State Investment Trust Fund</u>	<u>Common School Trust Fund*</u>	<u>Education Trust Fund</u>	<u>Resource Indemnity Trust Fund</u>	<u>Parks Acquisition Trust Fund</u>	<u>Total Trust Funds</u>
1973			\$ 64,223,773				\$ 64,223,773
1974			108,998,870		\$ 1,141,385		110,140,255
1975			113,064,188		3,287,456		116,351,644
1976			117,849,628	\$ 2,227,793	5,552,291	\$ 278,725	125,908,437
1977			123,281,528	6,039,530	8,232,247	758,308	138,311,613
1978	\$ 6,268,262		129,949,247	8,983,763	10,646,851	1,174,356	157,022,479
1979	16,940,538		137,716,735	12,339,549	12,574,209	1,475,732	181,046,763
1980	39,964,765		147,527,943	23,905,146	16,204,531	3,565,371	231,167,756
1981	75,187,459		163,163,556	33,624,170	21,165,464	5,325,746	298,466,395
1982	118,336,314		176,467,865	44,338,477	28,328,946	7,480,418	374,952,020
1983	158,358,806		189,390,417	52,665,410	36,181,889	9,481,542	446,078,064
1984	192,761,293	\$10,175,065	201,319,109	60,925,268	42,986,128	11,565,460	519,732,323
1985	230,599,696	21,820,828	214,764,544	70,500,922	47,396,179	13,859,181	598,941,350
1986	276,734,249	32,650,001	217,677,906	79,761,708	53,039,675	16,222,131	676,085,670
1987	297,844,102	42,039,078	227,687,073	44,091,429	56,861,627	16,613,608	685,136,917
1988	328,950,439	52,229,848	239,553,633	33,671,110	61,750,961	16,581,042	732,737,033
1989	352,330,943	59,508,050	254,128,428	8,651,477	66,665,000	16,608,706	757,892,604
1990	378,543,232	67,968,184	268,496,362		72,811,618	17,936,701	805,756,097
1991	396,314,851	73,892,057	282,093,660		77,544,869	18,857,242	848,702,679
1992	410,409,486	78,590,269	295,690,958		82,705,546	19,590,392	886,986,650
1993	424,489,780	83,283,700	309,288,256		87,590,609	20,320,354	924,972,699

*Balances include land value assets.

Note: The balances shown above reflect book values and not market values.

TRUST FUNDS--INTEREST AND BALANCES

Graph 1
Total Trust Fund Balances



Constitutional Trusts

Permanent Coal Tax Trust

Article IX, Section 5 requires that 50 percent of all coal severance tax revenue be deposited in a permanent trust fund and that the principal of the trust "shall forever remain inviolate unless appropriated by a three-fourths vote of each house." By statute, interest on this trust is distributed 85 percent to the general fund and 15 percent to the school equalization account.

The interest earned on this trust is an important general fund revenue source. During the period fiscal 1978 through fiscal 1990, \$276.3 million in interest from this trust was deposited in the general fund. In fiscal 1990, permanent coal tax trust interest provided 10 percent of total revenue to the general fund.

Initiative 95, approved by voters in 1982, requires that 25 percent of the revenue deposited in the permanent coal tax trust after June 30, 1983, be placed in the in-state investment trust fund for investment in the Montana economy "with special emphasis on investments in new or expanding locally owned

enterprises." Through fiscal 1990, the Board of Investments had invested nearly \$70 from the in-state investment fund in Montana businesses.

Coal tax revenue flowing into the permanent trust is also used to secure state bonds issued to finance water resource development projects and activities. Since 1981 when the legislature authorized this bonding program, \$24.5 million in water development projects throughout the state have been funded with revenue from these bonds.

The Executive Budget proposes to "cap" the permanent coal tax trust to fund a new program called the Big Sky Dividend. Under this proposal, the Executive Budget seeks legislative approval to: a) divert revenue that would be deposited in the trust during the 1993 biennium; and b) submit a constitutional amendment to voters in 1992 to end the flow of revenue into the trust. This proposal is discussed below.

Common School Trust

Article X, Sections 2 and 3 require that all royalties and other proceeds received from school lands granted to the state under the federal enabling act must be deposited in the common school

TRUST FUNDS--INTEREST AND BALANCES

trust fund and "shall forever remain inviolate, guaranteed by the state against loss or diversion." Article X, Section 5 requires that 95 percent of the interest from this trust be used for school equalization, with the remaining 5 percent reinvested in the trust.

The Executive Budget proposes to divert up to 10 percent of the interest that is currently used for school equalization to fund Department of State Lands operations. This proposal would not affect the interest that is reinvested in the common school trust. (For a discussion of this proposal, see pages C-8 through C-10.)

Resource Indemnity Trust

Article IX, Section 2 and Title 35, Chapter 38, MCA, requires that all collections from the resource indemnity tax on minerals be placed in a trust. The trust "shall forever remain inviolate" until the principal reaches \$100 million, at which point the tax may be spent. The trust is expected to reach \$100 million during the 1995 biennium.

The section "Resource Indemnity Trust Fund Interest" discusses the statutory allocation of interest earned on this trust.

Statutory Trusts

Education Trust

From fiscal 1976 through 1986, a portion of the revenue from coal severance tax was allocated to the education trust for the support of education. The legislature appropriated the corpus of this trust to the school equalization account during the period fiscal 1987 through 1990.

Park Acquisition Trust

During most of the last 15 years, a portion of the coal severance tax has been earmarked for the parks acquisition trust. During the late 1980's, the flow of revenue into this account was diverted to the general fund. However, the principal began to grow again in

fiscal 1990. Interest from this trust is statutorily allocated two-thirds for acquisition and operation of state parks and one-third to protection of works of art in the state capitol and other cultural and aesthetics projects.

Big Sky Dividend

The Executive Budget proposes to "cap" the permanent coal tax trust beginning in fiscal 1992 and use 50 percent of the revenue from the coal severance tax collections to fund the Big Sky Dividend grant program for local infrastructure programs. This proposal requires a three-quarter approval in each house to divert revenues during the 1993 biennium. Under the proposal, the 1991 legislature will also be asked to approve a referendum for the 1992 election, to submit to the electorate a constitutional amendment to permanently end the deposit of coal tax revenues in the permanent trust.

Based on current revenue estimates, this proposal would divert \$37.6 million during the 1993 biennium from the trust to the Big Sky Dividend program. This diversion will impact existing programs and revenue in three ways:

1) Loss of Interest. The Executive Budget estimates that \$4.2 million less interest will be deposited in the general fund and school equalization accounts during the 1993 biennium as a result of the Big Sky Dividend program. Under the proposal, the \$37.6 million of coal tax revenue diverted to the Big Sky Dividend program would remain in the state treasury until it was expended for local government infrastructure projects. Interest earned on the funds would continue to be deposited in the general fund and SEA. Because the Executive Budget assumes that not all of the Big Sky Dividend funds will be spent by the end of fiscal 1993, the estimated loss of interest income is limited to \$4.2 million during the 1993 biennium. However, the loss of interest will be much higher in the succeeding biennia. For example, the interest loss in the 1995 biennium will be \$10.7 million.

TRUST FUNDS--INTEREST AND BALANCES

2) Impact on Water Development Bonds.
Currently, the coal severance tax bonds are secured by the flow of coal tax revenue into the trust. Approximately \$500,000 per year of the revenue inflow is used to pay debt service on the existing bonds. The Big Sky Dividend proposal would end the revenue flow into the trust.

approved by voters in 1982, requires that 25 percent of the revenue flowing into the permanent trust fund be placed in an "in-state investment" fund within the permanent trust for investment in the Montana economy. The Big Sky Dividend proposal would limit the fund to \$83.3 million, its estimated principal at the end of fiscal 1991.

3) Impact on In-state Investment Trust.
As discussed above, Initiative 95,

RESOURCE INDEMNITY TRUST INTEREST

Article IX, Section 2 provides that certain taxes on the extraction of natural resources be deposited in a Resource Indemnity Trust. The principal of the trust up to \$100 million "shall remain forever inviolate..., guaranteed by the state against loss or diversion." Title 15, Chapter 38, MCA, provides for a resource indemnity tax of 0.5 percent on all mineral production except production from metalliferous mines. These revenues are deposited in the trust until the principal reaches \$100 million. After the principal reaches \$100 million, the tax revenue may be appropriated.

Under current law, the interest earned on the trust must be used "to improve the total environment and rectify damage thereto." Section 15-38-202, MCA, earmarks these interest earnings in the following manner:

- 1) An amount not to exceed \$175,000 to the environmental contingency fund;
- 2) Beginning in fiscal 1992, an amount not to exceed \$50,000 to the oil and gas mitigation account;
- 3) Of the remainder:
 - a) 30 percent for water development;
 - b) 46 percent for reclamation and development grants and related administration;
 - c) 12 percent for hazardous waste and superfund activities;
 - d) 4 percent for environmental quality protection; and
 - e) 8 percent for renewable resource grants and loans and related administration.

Current law also states: "It is the intent of the legislature that future appropriations from the resource indemnity trust interest account not be made to fund general operating expenses of state agencies."

Executive Budget Comparison

The Executive Budget projects that \$693,367 more revenue will be available for appropriation during the 1993 biennium than does the LFA current level. This is due primarily to lower LFA current level estimated RIT interest

available in fiscal 1991 to fund already appropriated projects and a lower beginning fund balance in the environmental quality protection account.

Projections of total revenue differ by less than \$32,000 over the biennium. However, LFA current level projects RIT interest and coal tax revenues will be \$244,419 higher over the biennium than Executive Budget projections.

The Executive Budget includes two recommendations for a change in current level use of RIT interest:

1) that asbestos permit income be used to fund operations of the Asbestos program. The program is currently funded with RIT interest, with any permit income collected deposited to the account; and

2) that Department of Fish, Wildlife, and Parks (DFWP) general license account funds totaling \$68,000 over the biennium be transferred to the water development account. As part of the proposed reorganization of the Departments of State Lands, Natural Resources and Conservation, and Health and Environmental Sciences, the funds would be used by the Department of State Lands to administer 19 dams currently administered by DFWP.

The Executive Budget proposes to use \$11,769,241 for agency administration in the 1993 biennium, including \$1,070,070 in budget modifications. This is \$942,006 more than LFA current level budget includes for this purpose. The Executive Budget also includes \$800,000 in the 1993 biennium for state-owned water projects. In addition, the Executive Budget also recommends that 25 percent of the total projected amount available for water development and renewable resource projects be earmarked for water storage projects.

Table 1 compares the total projected revenues to and allocations from the five accounts which receive a portion of the Resource Indemnity Trust interest in the Executive Budget and the LFA current level for the 1993 biennium.

RESOURCE INDEMNITY TRUST INTEREST

The balance is available to fund projects. The Executive Budget's

prioritized recommendations for these projects are discussed on pages G-7 through G-8.

Table 1
Revenues/Disbursements RIT Accounts
Comparison of Executive Budget and LFA Current Level
1993 Biennium

	Executive Budget	LFA Current Level	Difference
Beginning Fund Balance	\$ 3,670,378	\$ 3,008,203	\$ 662,175
Projected Revenues			
RIT Interest	16,557,676	16,789,733	(232,057)
Coal Tax	719,194	731,556	(12,362)
Loan Repayments	1,080,539	1,080,540	(1)
Nat'l Res. Damage Repayments	250,000	0	250,000
Interest	364,612	247,000	117,612
Asbestos Fees & Permits	0	160,000	(160,000)
Administrative Fees	50,000	50,000	0
Project Revenues	335,400	335,400	0
Transfer from FWP	68,000	0	68,000
Total Projected Revenues	\$19,425,421	\$19,394,229	\$ 31,192
Total Funds Available	\$23,095,799	\$22,402,432	\$ 693,367
Disbursements			
Debt Service	\$ 1,610,193	\$ 1,609,925	\$ 268
State Agencies			
DNRC (DNRE)			
Centralized Services	143,628	648,457	(504,829)
Conservation & Resource	0	1,826,668	(1,826,668)
Water Resources Division	2,018,904	2,191,703	(172,799)
Engineering Bureau	0	1,556,246	(1,556,246)
Water Courts	948,125	916,964	31,161
Mining (Reclamation) Div.	1,235,705	0	1,235,705
Environmental Division			
Administration	106,128	0	106,128
Solid/Hazardous Waste	1,201,813	0	1,201,813
Water Quality	773,570	0	773,570
Reserved Water Rights	584,261	446,330	137,931
Health and Environmental Sciences			
Environmental Sciences Div.			
Administration/Asbestos	0	263,992	(263,992)
Solid/Hazardous Waste	0	1,025,708	(1,025,708)
Water Quality	0	754,789	(754,789)
State Lands			
Central Management	434,665	0	434,665
Reclamation (Mining) Div.	0	1,169,927	(1,169,927)
Conservation & Resource	1,820,506	0	1,820,506
Water Projects (Engineering)	1,338,240	0	1,338,240
Admin. of DFWP Dams	67,175	0	67,175
Environmental Quality Council	26,451	26,451	0
Modified Budgets	1,070,070	0	1,070,070
State Water Projects	800,000	0	800,000
Total Disbursements	\$14,179,434	\$12,437,160	\$ 1,742,274
Available to Fund Projects			
Water Dev/Renew Res Projects	\$ 4,986,516	0	\$ 4,986,516
Water Storage	599,649	0	599,649
PROJECTED ENDING BALANCE	\$ 3,330,200	\$ 9,965,272	\$(6,635,072)

EXPENDITURE LIMITATION

Executive Budget

The Executive Budget is substantially below the statutory expenditure limit. Based on personal income growth in recent years, the total general fund and state special revenue expenditure allowed during the 1993 biennium is \$2.668 billion. The Executive Budget proposes expenditures from these funds of \$2.127 billion, or \$541 million less than the statutory limit.

Calculation of Limit

Section 17-8-106, MCA, limits the increase in biennial appropriations from the general fund, state special revenue and the cash portion of the capital projects fund to the growth in Montana's personal income. The following types of appropriations are not subject to the limit:

1) money received from the federal government;

- 2) payments on bonded indebtedness;
- 3) money paid for unemployment or disability benefits;
- 4) money received from sale of goods or services;
- 5) money paid from permanent endowments;
- 6) proceeds from gifts or bequests;
- 7) money appropriated for tax relief; and
- 8) funds transferred within state government or purchases of goods for resale.

Four calculations are required to determine the expenditure limit:

- 1) Determine the base appropriation level for the current biennium by summing appropriations for the general fund, special revenue accounts, and the cash portion of the capital projects fund, excluding the items listed above.

Table 1
Base Appropriations
1991 Biennium
(In Millions)

	Fiscal Year		Biennium
	<u>1990</u>	<u>1991</u>	
1991 Appropriations			
General Fund	\$453.921	\$483.918	\$ 937.839
State Special	749.891	857.879	1,607.770
Capital Projects(cash)			<u>5.523</u>
Total Appropriations			\$2,551.132
Exclusions			
Federal Funds			
Debt Service	\$23.807	\$23.812	\$47.619
Unemployment Benefits			
Sale of Goods			
Permanent Trust Payments			
Gifts or Bequests	0.245	0.169	0.414
Tax Relief Payments			
Transfers	74.883	52.400	<u>127.283</u>
Total Exclusions			\$175.316
Base 1991 Appropriations			\$2,375.816

EXPENDITURE LIMITATION

2) Determine the growth in personal income for the three years preceding the current biennium (1986, 1987, and 1988) and the three years preceding the next biennium (1988, 1989, and 1990). The growth in Montana's personal income between these two periods is 12.28 percent.

<u>Year</u>	<u>Montana Personal Income</u>	<u>3 Year Average Income</u>
1986	\$ 9,587,581	
1987	9,979,768	
1988	10,361,148	\$ 9,976,166
1989	11,341,578	
1990	11,902,294	11,201,674

Based on this growth in personal income, the expenditure limit for the 1993 biennium is \$2.668 billion.

3) Determine the base appropriation included in the Executive Budget for the 1993 biennium.

Table 2
Base Appropriations
1993 Biennium
(In Millions)

	<u>Fiscal Year</u>		<u>Biennium</u>
	<u>1992</u>	<u>1993</u>	
1993 Appropriations			
General Fund	\$576.343	\$607.114	\$1,183.457
State Special	581.752	527.065	1,108.817
Capital Projects(cash)			<u>7.600</u>
Total Appropriations			\$2,299.874
Exclusions			
Federal Funds			
Debt Service	\$23.628	\$32.163	\$55.791
Unemployment Benefits			
Sale of Goods			
Permanent Trust Payments			
Gifts or Bequests	0.245	0.169	0.414
Tax Relief Payments			
Transfers	80.397	36.201	<u>116.598</u>
Total Exclusions			\$172.803
Base 1993 Appropriations			\$2,127.071

4) Subtract the base 1993 appropriation level from the 1993 expenditure limit. This difference is \$540.495 million.

The Executive Budget calculated that its recommended expenditures would be under the expenditure limit by \$305.6 million. In its calculation, the Executive Budget did not exclude all debt service and transfers from the general fund and state special revenue accounts. In accordance with the statutory

exclusions, the LFA excluded debt service payments made by the Department of Highways and the Department of Administration and transfers within state government (such as transfers in the Stores Inventory Program and a one-time transfer of \$20 million general fund to the workers' compensation fund during the 1991 biennium.)

SUPPLEMENTAL REQUESTS

The Executive Budget includes \$82.7 million in supplemental requests for fiscal 1991. Of this amount, \$15.6

million is from the general fund. The following table shows the amount requested by each agency.

Table 1
FY1991 Supplementals included in Executive Budget

	<u>General Fund</u>	<u>Other Funds</u>	<u>Agency Total</u>
Judiciary			\$ 45,500
Bonds and Commissions	\$ 23,500		
Water Courts		\$ 22,000	
State Auditor			314,477
Fiscal Management and Control	263,423		
State Payroll	51,054		
Department of Justice			747,300
Motor Vehicle	63,700		
Law Enforcement Services	9,500		
County Attorney Payroll	77,000		
Transportation of Prisoners	100,000		
Highway Patrol		497,100	
Governor's Office			12,000
Citizens' Advocate	12,000		
Department of Highways			38,838,089
Construction		18,000,000	
Maintenance		234,716	
Equipment		735,059	
Stores Inventory		1,313,673	
Interfund Transfer		18,554,641	
Department of Revenue			220,984
Property Assessment	220,984		
Department of Administration			26,866
Teachers Retirement		26,866	
Department of Military Affairs			30,000
Air National Guard	30,000		
Department of Social and Rehabilitative Services			36,395,124
Family Assistance	1,491,208	4,676,450	
Medicaid Services	6,398,087	18,960,382	
Management & Analysis	461,964	2,977,827	
Developmental Disabilities	728,115	701,091	
Department of Family Services			1,072,507
Community Services	744,604	244,169	
Mountain View School	32,251		
Pine Hills School	51,483		

SUPPLEMENTAL REQUESTS

	<u>General Fund</u>	<u>Other Funds</u>	<u>Agency Total</u>
Department of Institutions			\$1,279,855
Prison	\$ 719,417		
Swan River	13,500		
Corrections	25,742		
Women's Corrections	78,040		
Corrections Medical	336,932		
Board of Pardons	35,651		
Montana State Hospital	70,573		
 Department of State Lands			2,517,108
Forestry Division	2,517,108		
 Board of Public Education	6,000		6,000
 School for Deaf and Blind Education	246,897		246,897
 Superintendent of Public Instruction			605,589
Transportation	605,589		
 University System			333,091
University of Montana	93,843		
Northern Montana College	133,237		
Eastern Montana College		\$ 106,011	
 Total	\$15,641,402	\$67,049,985	\$82,691,387

BUDGET BASICS

Actual vs. Appropriated Bases

The Executive Budget for the 1993 biennium is not based on actual expenditures for operating expenses. Instead, the Executive Budget used the appropriated level for fiscal 1991 as the base upon which recommended operating expense budgets for fiscal 1992 and 1993 are built.

In preparing the Budget Analysis, 1993 Biennium, the LFA used the traditional method employed by the legislature for at least the last two decades. It used actual expenditures in fiscal 1990 as the base from which current level operating expense budgets for fiscal 1992 and fiscal 1993 are projected.

Historically, actual expenditures are less than appropriations because agencies do not spend the entire appropriation. In fiscal 1990, actual general fund expenditures were \$14 million less than appropriations.

As a result of using fiscal 1991 appropriations as its budget base, the Executive Budget for operating expenses is significantly higher than the LFA current level budget for some agencies, as Table 1 shows.

Table 1
Difference in 1993 Biennium Budgets
Due to Base
Selected Agencies
(In Millions)

Agency	Over/Under LFA
Administration	\$3.000
Highways	1.837
DFWP	1.630
Commerce	1.000
Justice	0.295
Agriculture	0.265
Revenue	0.180
SRS	0.055
Governor's Office	0.050
State Auditor's Office	0.014

In other cases, the fiscal 1991 appropriation is less than the fiscal

1990 actual expenditures. For example, the Department of Institutions spent \$250,000 more in fiscal 1990 for medical services, supplies, and materials than its fiscal 1991 appropriation for these items, due to higher-than-anticipated populations at the men's and women's prisons and medical inflation. The LFA current level budget for the 1993 biennium is based on this actual experience in fiscal 1990, while the Executive Budget includes \$250,000 less because it is based on fiscal 1991 appropriations. Similarly, the Executive Budget contains \$178,717 less for medical costs and utilities at Pine Hills and Mountain View than the LFA current level because it is based on fiscal 1991 appropriations, which were lower than actual costs in fiscal 1990.

Personal Services "Snapshot"

Personal service costs comprise almost 50 percent of total agency expenditures (excluding capital outlay, benefits, and transfers). The Executive Budget and LFA current level use the same method for projecting personal services costs during the 1993 biennium. As a result, projected costs for most programs are identical in the two budgets.

Both budgets are based on a "snapshot" of actual salaries for authorized FTE as they existed on January 26, 1990. OBPP then adjusted this "snapshot" for all upgrades and downgrades to positions through June 30, 1990.

Both budgets reflect: 1) the scheduled increase in employee contributions to the Public Employees Retirement System (PERS) from 6.417 percent in fiscal 1992 to 6.55 percent in fiscal 1993; 2) the reduction in the payroll tax to 0.28 percent; and 3) a 7 percent increase in average workers compensation premiums in fiscal 1992 and an additional 6 percent in fiscal 1993, based upon projections by State Fund staff. Actual costs for workers compensation premiums and unemployment insurance vary among agencies, depending on their experience in recent years. Both the Executive and LFA current level budgets use fiscal 1991 unemployment rates and workers compensation modification factors in calculating 1993 biennium costs.

BUDGET BASICS

Vacancy Savings

Vacancy savings is the difference between the full cost and the actual cost of authorized positions during a budget period. Since 1979, the legislature has periodically applied a vacancy savings factor to agency budgets in recognition of the fact that staff turnover and vacancies often result in lower personal services expenditures than appropriated.

The 1989 legislature did not apply a vacancy savings factor for the 1991 biennium budgets. Instead, it included language in House Bill 100 prohibiting agencies from expending funds appropriated for personal services in any other category (with certain limited exceptions). Although OBPP did not establish any procedure to monitor and verify the expenditure of personal services funds, it estimates that \$6 million of general fund appropriated for personal services was reverted in fiscal 1990.

For the 1993 biennium, neither the Executive Budget or LFA current level budgets include vacancy savings. Full funding is included in both budgets for authorized positions. (Both budgets delete some FTE that were authorized by the 1989 legislature because they were vacant for extended periods in the 1991 biennium or because the agency requested their deletion. Funding is not included for these positions.) However, the Executive Budget proposes to use a 3

percent vacancy savings factor in fiscal 1992 and a 6 percent vacancy savings factor in fiscal 1993 to fund its proposed pay plan increase.

Inflation Factors

Neither the Executive Budget or the LFA current level include a general inflation factor for all operating expenses. Instead, both apply inflation (or deflation) factors to specific expenditure items.

OBPP and LFA staff agreed on inflation/deflation factors for many expenditure items. However, in certain key areas the two offices use different factors. Table 2 shows the inflation/deflation factors used in both budgets. The items for which different inflation factors are used are highlighted in the table. The reasons for the differences are discussed below.

As well as using different factors in certain cases, the Executive Budget applies these factors to the fiscal 1991 appropriation base, while the LFA current level budget applies them to fiscal 1990 expenditures. Since the 1989 legislature did not make inflationary adjustments between fiscal 1990 and fiscal 1991 for most budget items, this base difference has minimal impact. However, in some items (utilities and motor pool rates, for example), the application of inflation factors to different bases has a significant impact, as discussed below.

BUDGET BASICS

Table 2
Budget Inflation/(Deflation) Factors
(Percent)

Exp. Code	Name	-----OBPP-----		-----LFA-----	
		FY1991/FY1992	FY1991/FY1993	FY1990/FY1992	FY1990/FY1993
2116	MEDICAL SERVICES	0	0	6.20	12.89
2163	Typesetting	2.00	2.00	2.00	2.00
2172	COMPUTER PROCESSING	(19.00)	(27.00)	(7.00)	(15.00)
2175	System Development	3.00	6.00	3.00	6.00
2177	INFORMATION CENTER	7.00	14.00	0.00	0.00
2183	Operation Support	(14.50)	(14.50)	(14.50)	(14.50)
2190	Printing/P&G	2.00	4.00	2.00	4.00
2191	Printing/Other Provider	4.00	8.00	4.00	8.00
2192	Graphic Arts	2.00	2.00	2.00	2.00
2193	Photocopy Pool Services	6.00	12.00	6.00	12.00
2205	FOOD*	7.44	11.80	8.52	13.01
2209	Medical	6.20	12.89	6.20	12.89
2211	COARSE PAPER	6.00	12.00	18.76	18.56
2216	GASOLINE	15.60	14.90	17.86	10.67
2219	FORMS	6.00	12.00	2.40	(1.57)
2222	Drugs	6.20	12.89	6.20	12.89
2223	X-Rays	6.20	12.89	6.20	12.89
2225	Books/Reference Materials	5.30	10.57	5.30	10.57
2226	FINE AND COMPUTER PAPER	6.00	12.00	20.47	19.82
2236	OFFICE SUPPLIES	(3.00)	(2.00)	0.99	(1.34)
2242	Diesel Fuel	15.60	14.90	17.86	10.67
2249	EKG and EEG Supplies	6.20	12.89	6.20	12.89
2250	Hospital	6.20	12.89	6.20	12.89
2251	MEAT*	7.44	11.80	8.52	13.01
2252	DAIRY*	7.44	11.80	8.52	13.01
2253	PRODUCE*	7.44	11.80	8.52	13.01
2254	BAKERY*	7.44	11.80	8.52	13.01
2256	Janitorial Supplies	6.00	12.00	6.00	12.00
2264	GROCERY*	7.44	11.80	8.52	13.01
2265	Misc. Medications	6.20	12.89	6.20	12.89
2275	POULTRY*	7.44	11.80	8.52	13.01
2277	SUGAR*	7.44	11.80	8.52	13.01
2278	BEVERAGES*	7.44	11.80	8.52	13.01
2279	RED MEAT*	7.44	11.80	8.52	13.01

BUDGET BASICS

Exp. Code	Name	-----OBPP-----		-----LFA-----	
		FY1991/FY1992	FY1991/FY1993	FY1990/FY1992	FY1990/FY1993
2288	CANNED GOODS	7.44	11.80	8.52	13.01
2289	FOOD STAPLES	0.00	0.00	8.32	13.01
2291	SEA FOOD*	7.44	11.80	8.52	13.01
2292	PORK*	7.44	11.80	8.52	13.01
2304	Postage	20.00	20.00	20.00	20.00
2307	"Deadhead" Mail Service	21.00	21.00	21.00	21.00
2370	Telephone Equip. (DoA)	0.00	(5.00)	0.00	(5.00)
2371	Telephone Equip.	5.00	10.00	5.00	10.00
2372	Telephone Move	4.00	8.00	4.00	8.00
2376	Local Voice	5.00	10.00	5.00	10.00
2378	Voice Circ. Move	4.00	8.00	4.00	8.00
2379	Local Data Circ.	5.00	10.00	5.00	10.00
2385	Long Distance (DoA)	(3.00)	(3.00)	(3.00)	(3.00)
2401	IN-STATE PERSONAL CAR MILEAGE	0.00	0.00	7.14	7.14
2404	MOTOR POOL TRAVEL	(10.12)	(0.72)	0.00	0.00
2411	OUT-OF-STATE PERSONAL CAR MILEAGE	0.00	0.00	7.14	7.14
2414	OUT-OF-STATE MOTOR POOL	(10.12)	(0.72)	0.00	0.00
2601	ELECTRICITY MDU	2.87	2.87	6.43	7.49
2601	ELECTRICITY MPC	(3.70)	(8.68)	6.43	7.49
2602	FUEL OIL	15.60	14.90	17.86	10.67
2603	NATURAL GAS	3.99	8.42	6.59	11.39
2604	LAB GAS	0	0	6.59	11.39
2607	PROPANE	0	0	6.59	11.39
2724	OIL	15.60	14.90	17.86	10.67
2725	TRANSMISSION FLUID	15.60	14.90	0.00	0.00
2726	GREASE AND LUBE	15.60	14.90	0.00	0.00
2732	PAINT-TRAFFIC LANE	15.60	14.90	17.86	10.67
2738	ROAD OIL	15.60	14.90	17.86	10.67
2742	OIL MIXED MATERIALS	15.60	14.90	17.86	10.67
2770	BUILDINGS AND GROUNDS-DFWP	0.00	0.00	7.16	7.16
2905	BOOKS	5.30	10.57	10.83	16.37
3402	SINGLE USER SOFTWARE	8.00	8.00	0.00	0.00

*OBPP applied inflation to FY1990 actual expenditures of selected agencies for commodities.

BUDGET BASICS

Utilities

Because anticipated (and budgeted) increases in utility costs between fiscal 1990 and fiscal 1991 did not occur, the Executive Budget includes deflation factors for Montana Power Company (MPC) electricity rates during

the 1993 biennium when applied to the fiscal 1991 appropriation. [The 1989 legislature included inflationary adjustments for fiscal 1991 of 6.4 percent for Montana Power Company electricity and zero for Montana Dakota Utilities (MDU) electricity.] Table 3 compares the inflation rates for utilities, adjusted to the 1990 base.

Table 3
Comparison of Utility Inflation Rates Applied to FY90 Base
(Percent)

<u>Expenditure Item</u>	<u>---FY90/FY92---</u>		<u>---FY90/FY93---</u>	
	<u>OBPP</u>	<u>LFA</u>	<u>OBPP</u>	<u>LFA</u>
MPC electricity	2.47%	6.43%	(2.83)%	7.49%
MPC natural gas	4.90	6.59	7.94	11.39
MDU electricity	2.87	6.43	2.87	7.49
MDU natural gas	4.41	6.59	8.85	11.39

The lower inflation rates in the Executive Budget have a significant impact on state agencies that budget for utilities. For example, due solely to differences in inflation factors the Executive Budget contains \$372,923 less for the biennium in utilities in the Department of Institutions and \$24,182 less in the Department of Family Services.

This difference in inflation factors does not appear to impact the General Services program (whose budget includes electricity purchases for the entire capitol complex) in the same way. The Executive Budget allowed a substantial increase in the fiscal 1991 appropriation for this item, so even with the lower inflation factors, the Executive Budget contains \$452,000 more for utilities in this program during the 1993 biennium than the LFA current level budget.

The inflationary factors used in the LFA current level budget are based on historical information from the Public Service Commission and forecast data provided by the utility companies. The inflation factor for MPC electricity reflects the \$30.5 million interim rate increase approved in August, 1990, and the scheduled decreases for the Colstrip

3 phase-in. MPC has requested a \$60 million permanent rate increase effective during the 1993 biennium. While the major restructuring in natural gas utility pricing that will take place during the next several years makes forecasting for this item difficult, the LFA inflation factors reflect an expected increase in natural gas prices in the 1993 biennium.

Food

The Executive Budget applied an inflation factor to certain food items in some agency budgets (principally the Department of Institutions), but not in others. In some cases, it used the fiscal 1990 actual expenditures for food items and applied the inflation factor shown in Table 2 to that base. In other cases, it applied the factors to the fiscal 1991 appropriated base.

The LFA inflation factor is based on the implicit price deflator for personal consumption expenditures.

Gasoline and oil-related products

Both budgets assume prices for gasoline and diesel fuel and other oil-based products (such as paint) will increase during the 1993 biennium due to higher

BUDGET BASICS

oil prices. The Executive Budget's inflation factors are based on oil prices of \$17.51/bbl. in fiscal 1991, \$23.88/bbl. in fiscal 1992, and \$21.88/bbl. in fiscal 1993. The Executive Budget used different assumptions about oil prices in estimating revenues for the 1993 biennium. It assumed oil prices of \$25.70/bbl. in calendar 1991.

The LFA current level used the same assumptions in estimating revenue collections and inflation factors for oil-based products: \$23.729 in calendar 1991; \$21.60 in calendar 1992; and \$21.227 in calendar 1993.

Travel

Section 2-18-503, MCA, requires that mileage reimbursements for legislators and state employees be based on rates established by the Internal Revenue Service (IRS). The LFA inflation factor for personal car mileage (2401 and 2411) is based on the IRS rate for calendar 1991. This per mile rate has increased from FY90 levels: CY1989-\$0.24; CY1990-\$0.255; and CY1991-\$0.26. The Executive Budget includes no inflation factor for these expenditure items.

In fiscal 1991, state motor pool rates increased from 3.4 to 16.6 percent (depending on vehicle type) to fund replacement of a large portion of the fleet. Depreciation costs will decline during the 1993 biennium, as the program plans to purchase fewer vehicles. The LFA inflation factor for motor pool rates assumes that rates will return to the fiscal 1990 level, due to the net impact of gasoline price increases and reduced depreciation costs. The Executive Budget includes a deflation factor for motor pool rates, since it uses fiscal 1991 appropriations as its base.

Computer processing

The Executive Budget and the LFA current level have significantly different rates for computer processing (2172) and network fees (2174) charged by the Department of Administration to agencies' budgets. The Executive Budget includes a \$1.6 million budget modification for expansion of network

services in the Department of Administration. (For a full discussion of this budget modification, see pages A-123 through A-125). Anticipating legislative approval of this budget modification, the Executive Budget includes fees ranging from \$30-\$40 a month for every personal computer in state government and significant deflation factors for mainframe computer processing. Currently, the Department of Administration is using mainframe computer processing charges to subsidize the network expansion. The proposed network fees add \$2.9 million to agency budgets during the biennium in the Executive Budget.

Since this budget modification for expansion of network services has not yet been approved by the legislature and because it involves significant policy choices, it is not included in the LFA current level inflation factors. The LFA deflation factor for mainframe computer processing (2172) reflects anticipated costs during the 1993 biennium without expanded network services or changes in rate structures. The decline is due to increased volume from TEAMS, a large new computer system in SRS that will be operational in the 1993 biennium.

Buildings and Grounds

The Executive and LFA current level budgets include very similar rates for the building and grounds fees charged to state agencies by the Department of Fish, Wildlife, and Parks (DFWP) for capitol grounds maintenance, snow removal, and water. These fees are based on office square feet occupied by all agencies in the capitol complex. The Executive Budget used a fixed cost allocation of \$0.275 per square foot for both fiscal 1992 and fiscal 1993. The LFA budget used an inflation factor that yields \$0.274 per square foot for both years, which reflects the revenue estimates prepared by DFWP. Both rates include \$55,545 for the biennium to remove and replace trees damaged during the 1988-89 winter and to fund a \$5,500 pay increase for snow removal personnel.

BUDGET BASICS

Fixed Costs

The Executive and LFA current level use the same estimated costs during the 1993 biennium for the following fixed costs: Department of Administration insurance and bonds (2104); State Auditor payroll fees (2114); Department of Administration messenger/mail service fees (2307); and Department of Administration rent (2527).

The only difference between the two budgets in fixed costs are DFWP fees (discussed above) and Legislative Audit costs (2122). The Executive Budget

audit fees include \$215,000 for the biennium for 4.5 additional FTE that the Legislative Auditor is requesting in a budget modification. Because the legislature has not yet approved this budget modification, this cost is not included in the LFA current level audit fees for the 1993 biennium.

AGENCY BUDGET COMPARISONS BY FUND TYPE

General Fund

The following table shows a comparison by agency of the total Executive Budget (current level and budget modifications)

and the LFA current level budget for general fund expenditures during the 1993 biennium. The Executive Budget includes \$26.5 million more general fund than the LFA current level.

Agency Name	Executive Recommended Fiscal 1992	Executive Recommended Fiscal 1993	LFA Current Level Fiscal 1992	LFA Current Level Fiscal 1993	Executive Recommended Fiscal 92-93	LFA Current Level Fiscal 92-93	Executive Over (Under) LFA
Legislative Auditor	\$1,292,963	\$1,286,355	\$1,154,114	\$1,149,896	\$2,579,318	\$2,304,012	\$275,306
Legislative Fiscal Analyst	814,162	881,815	804,082	851,835	1,876,077	1,855,917	20,160
Legislative Council	1,900,931	2,359,051	1,523,256	2,056,537	4,256,882	3,579,793	680,189
Legislature - Senate	0	0	0	0	0	0	0
Legislature - House	0	0	0	0	0	0	0
Environmental Quality Council	286,170	262,181	286,170	262,181	528,331	528,331	0
Judiciary	5,184,453	5,169,270	4,925,259	4,915,058	10,353,723	9,840,315	513,408
Governors Office	3,659,264	3,548,231	2,827,438	2,505,257	7,207,495	5,132,895	2,074,800
Secretary of States Office	933,490	983,254	912,180	912,663	1,916,744	1,824,843	91,901
Commissioner of Political Prac	113,645	115,398	109,922	111,851	229,041	221,873	7,168
State Auditors Office	2,506,710	2,425,553	2,293,734	2,282,805	4,932,283	4,578,339	355,924
Office of Public Instruction	45,318,335	45,259,174	44,780,753	44,724,344	90,575,509	89,505,097	1,070,412
Billings Vo Tech	1,055,231	1,049,291	928,607	919,693	2,104,522	1,848,300	256,222
Butte Vo Tech	1,248,635	1,247,429	1,204,001	1,199,380	2,498,064	2,403,381	92,703
Great Falls Vo Tech	1,440,716	1,436,371	1,275,580	1,288,848	2,877,087	2,544,206	332,881
Helena Vo Tech	1,914,513	1,912,450	1,723,145	1,716,232	3,828,963	3,438,377	387,588
Missoula Vo Tech	2,034,667	2,028,623	1,886,993	1,879,823	4,064,310	3,768,616	297,694
Crime Control Division	483,363	510,876	432,877	433,034	984,236	885,911	128,325
Highway Traffic Safety	400,000	400,000	200,000	200,000	800,000	400,000	400,000
Department of Justice	11,006,479	11,038,988	10,885,520	10,743,287	22,044,445	21,428,807	615,638
Public Service Regulation	1,885,982	2,098,258	1,788,213	1,790,122	4,082,240	3,578,335	483,805
Board of Public Education	122,301	122,130	111,211	111,199	244,431	222,410	22,021
Commissioner of Higher Education	14,009,858	14,007,138	9,862,693	10,036,888	28,016,996	20,019,589	7,997,407
University of Montana	27,083,551	28,915,896	27,229,296	27,261,559	53,999,447	54,480,855	(491,408)
Montane State University	32,806,850	32,629,558	33,033,749	33,072,196	65,536,408	66,105,945	(569,537)
Mont College of Min Sc & Tech	6,778,050	6,761,758	6,877,300	6,885,239	13,537,808	13,362,539	175,269
Eastern Montana College	9,870,129	9,809,558	9,849,334	9,847,730	19,679,685	19,687,084	(17,379)
Northern Montana College	5,557,702	5,551,097	5,430,445	5,427,711	11,108,799	10,858,156	250,643
Western Montana College	3,350,631	3,344,632	3,318,540	3,316,823	6,665,283	6,633,193	32,100
Agricultural Exper Station	7,134,831	7,115,890	6,891,552	6,893,017	14,250,521	13,884,589	285,952
Cooperative Extension Service	2,580,666	2,589,554	2,510,082	2,509,922	5,150,220	5,020,004	130,216
Forestry & Cons Exper Station	889,664	690,068	886,051	888,853	1,378,732	1,372,804	5,928
Bureau of Mines	1,373,991	1,374,106	1,298,835	1,297,727	2,748,187	2,584,582	153,625
School For The Deaf & Blind	2,823,324	2,922,323	2,505,842	2,503,891	5,245,647	5,008,533	236,114
Montane Arts Council	133,695	134,476	129,227	129,218	268,171	258,443	9,728
Library Commission	957,759	962,091	838,451	842,628	1,919,850	1,278,079	840,771
Historical Society	1,260,571	1,233,542	1,234,739	1,235,834	2,494,113	2,470,573	23,540
Fire Services Training School	0	0	211,887	223,257	0	435,224	(435,224)
Department of Fish, Wildlife & Perks	750,000	750,000	0	0	1,500,000	0	1,500,000
Department Health & Environ Sciences	2,897,312	2,846,151	3,351,771	3,372,472	5,843,463	6,724,243	(880,780)
Department of Highways	589,706	409,782	0	0	899,468	0	899,468
Department of State Lands	5,581,811	5,130,565	8,251,841	8,271,453	10,712,376	18,523,294	(5,810,918)
Department of Livestock	914,931	912,855	805,950	804,484	1,827,788	1,610,434	217,352
Department Nat Resource/Conservation	5,730,059	5,641,217	4,340,048	4,345,573	11,371,270	8,885,821	2,885,855
Department of Revenue	19,501,458	19,822,309	18,833,891	18,579,776	39,123,785	37,213,467	1,910,298
Department of Administration	3,540,819	3,536,633	3,425,442	3,408,442	7,077,452	6,831,084	245,588
Department of Agriculture	941,725	789,139	1,454,041	1,440,838	1,730,864	2,894,878	(1,163,815)
Department of Institutions	67,254,895	68,513,246	68,575,989	69,078,683	133,787,941	137,854,852	(3,888,711)
Department of Commerce	5,670,618	5,590,804	5,406,510	5,186,320	11,261,420	10,582,830	688,590
Labor & Industry	699,733	871,118	707,687	677,858	1,370,651	1,305,723	(14,872)
Adjutant General	2,239,475	2,122,888	1,973,151	1,981,518	4,362,363	3,954,667	407,696
Department Social & Rehab Services	85,053,926	93,427,939	85,351,428	89,730,855	179,261,862	175,062,283	4,199,579
Department of Family Services	28,903,076	29,105,107	24,311,594	24,811,777	58,008,183	49,123,371	8,884,812
Totals	\$431,037,439	\$437,005,259	\$417,944,441	\$423,581,447	\$608,042,696	\$641,535,688	\$28,508,810

AGENCY BUDGET COMPARISONS BY FUND TYPE

State Special Revenue Fund

The following table shows a comparison by agency of the total Executive Budget (current level and budget modifications) and the LFA current level budget for

expenditures from the state special revenue fund during the 1993 biennium. The Executive Budget includes \$37.4 million more state special revenue fund expenditures than the LFA current level.

Agency Name	Executive Recommended Fiscal 1992	Executive Recommended Fiscal 1993	LFA Current Level Fiscal 1992	LFA Current Level Fiscal 1993	Executive Recommended Fiscal 92-93	LFA Current Level Fiscal 92-93	Executive Over (Under) LFA
Legislative Auditor	\$1,242,260	\$1,235,914	\$1,108,655	\$1,104,605	\$2,478,174	\$2,213,660	\$264,514
Legislative Council	1,056,188	511,483	900,641	511,483	1,569,679	1,412,124	157,555
Environmental Quality Council	13,225	13,226	13,225	13,226	26,451	26,451	0
Consumer Counsel	905,205	923,374	898,599	916,783	1,626,579	1,815,382	13,197
Judiciary	475,093	473,032	461,525	455,439	948,125	918,964	31,161
Mt Chiropractic Legal Panel	13,000	13,000	13,000	13,000	26,000	26,000	0
Governors Office	80,413	60,413	60,395	60,395	160,826	160,790	36
Secretary of States Office	177,265	176,336	173,862	175,087	355,821	346,929	6,692
State Auditors Office	360,346	380,355	372,500	362,500	720,703	735,000	(14,297)
Office of Public Instruction	1,563,539	1,564,617	1,469,376	1,469,376	3,188,356	2,978,756	169,600
Crime Control Division	462,901	459,784	433,665	433,665	922,665	867,330	55,335
Highway Traffic Safety	76,051	76,039	71,010	70,931	152,090	141,941	10,149
Department of Justice	14,556,069	14,140,122	13,446,142	13,352,941	28,696,191	26,601,063	1,695,106
Board of Public Education	72,716	72,914	69,912	70,124	145,630	140,038	5,594
Commissioner of Higher Education	12,485,363	12,732,504	12,652,005	13,112,480	25,217,667	25,964,465	(746,598)
School For The Deaf & Blind	162,429	167,339	183,000	169,000	329,766	372,000	(42,232)
Montana Arts Council	154,830	155,239	101,776	101,771	310,069	203,546	106,520
Library Commission	409,181	408,232	398,686	388,633	615,393	767,721	27,872
Historical Society	194,826	194,269	66,042	66,349	388,917	176,391	212,526
Department of Fish, Wildlife & Parks	21,456,531	21,545,507	18,671,718	18,405,170	43,002,036	37,076,666	5,925,152
Department Health & Environ Sciences	1,465,517	1,404,940	3,636,979	3,841,639	2,890,457	7,660,616	(4,760,361)
Department of Highways	170,534,331	135,323,696	146,733,966	154,256,370	305,868,029	302,990,336	2,667,691
Department of State Lands	12,511,366	9,991,291	4,255,367	4,226,699	22,502,677	8,484,266	14,016,411
Department of Livestock	3,696,809	3,697,394	3,696,466	3,471,492	7,596,203	7,169,956	426,245
Department Nat Resource/Conservation	12,859,410	12,532,647	6,179,571	6,112,828	25,362,257	12,292,399	13,099,856
Department of Revenue	613,663	560,947	972,523	985,137	1,194,630	1,937,880	(742,830)
Department of Administration	662,105	693,490	685,963	675,664	1,375,595	1,341,847	33,748
State Comp. Mutual Ins. Fund	26,570	0	26,025	0	26,570	26,025	545
Long Range Building Plan	0	0	0	0	0	0	0
Department of Agriculture	5,039,524	5,177,593	3,538,917	3,542,323	10,217,117	7,061,240	3,135,677
Department of Institutions	4,631,158	4,845,327	4,262,437	4,392,173	9,676,485	8,874,610	1,001,675
Department of Commerce	14,646,604	14,740,957	14,496,508	12,894,530	29,389,561	27,193,038	2,196,525
Labor & Industry	3,238,570	3,233,731	3,146,936	3,139,930	6,472,301	6,268,868	165,435
Adjutant General	12,000	12,000	0	0	24,000	0	24,000
Department Social & Rehab Services	11,782,346	11,857,543	12,689,006	13,196,726	23,639,669	26,085,736	(2,445,647)
Department of Family Services	2,507,116	2,513,360	2,363,765	2,370,769	5,020,476	4,734,534	285,942
Totals	\$300,610,592	\$261,929,017	\$260,920,569	\$264,224,242	\$562,539,609	\$525,144,611	\$37,394,796

AGENCY BUDGET COMPARISONS BY FUND TYPE

Federal Funds

The following table shows a comparison by agency of the total Executive Budget (current level and budget modifica-

tions) and the LFA current level budget for federally funded expenditures. The Executive Budget includes \$48.6 million more federal fund expenditures than the LFA current level.

Agency Name	Executive Recommended Fiscal 1992	Executive Recommended Fiscal 1993	LFA Current Level Fiscal 1992	LFA Current Level Fiscal 1993	Executive Recommended Fiscal 92-93	LFA Current Level Fiscal 92-93	Executive Over (Under) LFA
Governors Office	\$453,323	\$453,238	\$428,559	\$428,341	\$906,559	\$856,800	\$49,659
Office of Public Instruction	8,097,578	8,142,100	8,830,765	8,793,280	18,239,678	13,824,045	2,815,833
Crime Control Division	3,456,938	3,456,938	2,278,982	2,278,982	6,913,878	4,557,924	2,355,952
Highway Traffic Safety	909,811	909,551	884,635	884,229	1,819,362	1,766,864	50,498
Department of Justice	988,419	835,883	913,948	805,828	1,804,302	1,719,672	84,430
Public Service Regulation	25,918	25,918	25,918	25,918	51,838	51,838	0
Commissioner of Higher Education	7,958,419	7,957,085	8,228,510	8,113,634	15,915,504	12,342,344	3,573,160
School For The Deaf & Blind	188,200	188,200	188,200	188,200	332,400	332,400	0
Montana Arts Council	377,489	378,602	352,000	352,000	756,071	704,000	52,071
Library Commission	1,342,322	1,342,322	815,000	815,000	2,884,844	1,830,000	1,054,844
Montana Council On Vocational	188,867	188,773	137,427	137,496	333,430	274,925	58,505
Historical Society	633,545	609,127	448,049	448,049	1,242,672	892,098	350,574
Fire Services Training School	0	0	0	0	0	0	0
Department of Fish, Wildlife & Parks	10,506,359	10,865,244	8,888,032	7,008,380	21,170,603	13,874,412	7,296,191
Department Health & Environ Sciences	20,717,370	21,434,187	22,512,232	22,521,793	42,151,537	45,034,025	(2,882,488)
Department of Highways	133,349,719	119,115,999	145,883,431	146,872,179	252,465,716	292,855,810	(40,389,892)
Department of State Lands	7,728,198	634,508	6,652,459	6,652,191	8,380,706	17,304,650	(6,943,944)
Department of Livestock	388,530	388,313	278,814	278,804	734,843	557,618	177,225
Department Nat Resource/Conservation	22,632,682	22,643,528	1,093,154	1,092,982	45,478,210	2,188,116	43,290,094
Department of Revenue	293,788	293,785	308,578	308,585	587,583	813,183	(25,580)
State Comp. Mutual Ins. Fund	0	0	0	0	0	0	0
Long Range Building Plan	0	0	0	0	0	0	0
Department of Agriculture	380,721	380,794	332,045	342,552	761,515	874,597	88,918
Department of Institutions	4,986,781	4,381,000	3,928,245	3,928,150	9,347,781	7,856,395	1,491,386
Department of Commerce	23,734,108	23,733,248	23,339,940	23,345,784	47,467,354	48,685,724	781,630
Labor & Industry	33,958,108	34,148,990	32,763,318	32,932,617	68,103,096	65,696,135	2,406,961
Adjutant General	4,126,787	4,126,778	4,924,874	4,942,110	8,253,585	9,688,784	(1,813,219)
Department Social & Rehab Services	253,089,595	270,223,437	237,259,475	250,544,937	523,313,032	487,804,412	35,508,620
Department of Family Services	12,114,297	12,203,933	11,534,400	11,639,279	24,316,230	23,173,679	1,144,551
Totals	\$552,536,638	\$548,973,469	\$519,162,768	\$533,755,760	\$1,101,512,107	\$1,052,936,528	\$48,573,579

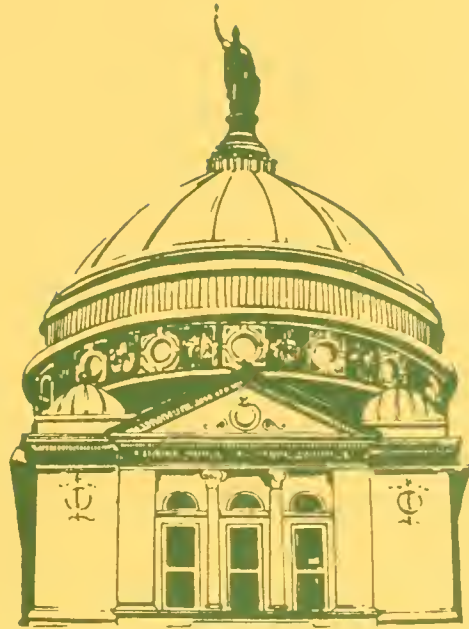
AGENCY BUDGET COMPARISONS BY FUND TYPE

Proprietary Funds

The following table shows a comparison by agency of the total Executive Budget (current level and budget modifications) and the LFA current level budget for expenditures from proprietary funds. In total, the LFA current level contains \$4.5 million more proprietary funds

because the Executive Budget does not include transfer authority for liquor revenue (liquor profits, excise taxes, and liquor license taxes) to the general fund. After adjusting for this difference, the Executive Budget includes \$23.22 million more expenditures from the proprietary fund than the LFA current level.

Agency Name	Executive Recommended Fiscal 1992	Executive Recommended Fiscal 1993	LFA Current Level Fiscal 1992	LFA Current Level Fiscal 1993	Executive Recommended Fiscal 92-93	LFA Current Level Fiscal 92-93	Executive Over (Under) LFA
State Auditors Office	\$88,143	\$87,287	\$0	\$0	\$173,430	\$0	\$173,430
Office of Public Instruction	844,364	848,007	766,683	761,068	1,892,371	1,527,749	164,622
Department of Justice	800,735	800,834	595,300	595,303	1,201,669	1,190,603	11,066
Public Service Regulation	20,000	20,000	20,000	20,000	40,000	40,000	0
Commissioner of Higher Education	13,547,012	16,046,816	13,783,315	16,047,382	29,583,828	29,810,897	(216,869)
Historical Society	512,391	509,574	447,030	449,798	1,021,965	896,828	125,137
Fire Services Training School	0	0	23,500	23,500	0	47,000	(47,000)
Department of Fish, Wildlife & Parks	2,326,348	2,333,451	2,018,869	2,056,662	4,859,799	4,075,531	584,268
Department Health & Environ Sciences	970,812	973,293	1,099,616	1,101,051	1,944,105	2,200,867	(256,562)
Department of Highways	14,438,807	14,267,345	14,215,627	13,921,055	28,705,952	28,136,682	569,270
Department of State Lands	220,377	218,139	189,612	187,732	438,516	377,344	61,172
Department of Revenue	30,948,556	30,951,105	48,727,284	48,838,067	81,899,861	93,365,351	(31,465,690)
Department of Administration	37,873,778	38,046,595	32,611,981	32,288,085	75,920,371	84,881,066	11,039,305
State Comp. Mutual Ins. Fund	123,395,584	130,401,613	121,009,440	128,061,870	253,797,397	249,071,110	4,726,287
Long Range Building Plan	0	0	0	0	0	0	0
Department of Agriculture	11,218	11,271	8,155	8,181	22,489	18,338	8,153
Department of Institutions	2,998,910	3,002,453	2,789,143	2,776,768	6,001,363	5,565,931	435,432
Department of Commerce	13,801,888	13,251,785	9,805,181	9,821,255	27,053,633	19,226,436	7,827,197
Labor & Industry	2,983,285	2,948,689	2,836,843	2,838,912	5,931,934	5,673,555	258,379
Department Social & Rehab Services	2,138,914	2,103,413	1,365,092	1,354,275	4,242,327	2,719,367	1,522,960
Totals	\$247,718,880	\$258,621,930	\$250,092,471	\$258,729,782	\$504,340,810	\$508,822,253	(\$4,481,443)



GENERAL GOVERNMENT AND HIGHWAYS

LEGISLATIVE AUDITOR

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	60.00	60.00	60.00	60.00	.00
Personal Services	1,777,381	1,856,168	1,929,980	1,928,077	6.18%
Operating Expenses	248,615	282,057	299,873	291,311	11.40%
Equipment	33,525	32,727	33,116	35,315	3.29%
Total Agency	\$2,059,521	\$2,170,952	\$2,262,969	\$2,254,703	6.79%
Fund Sources					
General Fund	1,024,932	1,119,316	1,154,114	1,149,898	7.45%
State Revenue Fund	1,034,589	1,051,636	1,108,855	1,104,805	6.11%
Total Funds	\$2,059,521	\$2,170,952	\$2,262,969	\$2,254,703	6.79%

Agency Description

The Office of the Legislative Auditor, established in 1967, is governed by the Legislative Audit Act contained in Title 5, Chapter 13, MCA. Article V, Section 10(4) of the Montana Constitution mandates a legislative post-audit function. The office works under the supervision of the Legislative Audit Committee.

The office is divided into three functional areas: 1) Financial-Compliance Audits; 2) Performance Audits; and 3) Operations/Electronic Data Processing (EDP) Audits. The Financial-Compliance section performs biennial audits of all state agencies, an annual statewide financial audit, and a biennial federal single audit. The Performance Audit section conducts legislatively requested audits and performance audits of state agencies to determine program effectiveness, efficiency, and compliance with established laws, rules, goals, and objectives. EDP audits are evaluations of data processing systems and controls and are conducted independently and in conjunction with financial-compliance and performance audits.

Current Level Budget

The Legislative Auditor's 1993 biennium current level increases 6.8 percent over the previous biennium. Personal

services increase 6.2 percent due to the fiscal 1991 pay plan increase continued in the 1993 biennium. In addition, the office projected personal service costs for all positions at the grade levels they were on the "snapshot" date. This included four vacant positions that are reflected at the grade levels held by the previous incumbents.

Biennial operating expenses reflect increases in contracted services, travel, and other expenses. The increase in contracted services relates to the office's need to hire consultants to complete the audit schedule (approximately \$19,600 per year). In fiscal 1990, the office spent \$2,922 of its \$22,500 budget for consultants. The office did not contract for consultants in fiscal 1990 in an effort to ensure spending authority was available to cover a funding deficiency in personal services. In addition, printing and typesetting costs are budgeted over the biennia at a constant level (approximately \$20,000 per year). Printing and typesetting costs were subsequently decreased in the Adjusted Cost Estimates budget modification (see below). Budgeted travel costs are increased \$7,369 for the biennium based on fiscal year 1991 budgeted amounts. Training and registration fees increase approximately \$6,000 in response to new continuing education requirements of governmental auditing standards for performance and financial-compliance auditors.

LEGISLATIVE AUDITOR

The current level budget includes \$11,040 per year for network fees paid to the Department of Administration. If the legislature does not approve the inclusion of the statewide network in computer charges for the 1993 biennium, this amount can be removed from the budget.

Current level equipment increases 3.3 percent over the biennium to reflect the

increased costs of replacing used computer equipment and the adoption of an equipment replacement plan.

Budget Modifications

The Office of Legislative Auditor is requesting three budget modifications.

Budget Modifications

1993 Biennium

<u>Budget Modification</u>	<u>FTE FY92</u>	<u>FTE FY93</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
1. Additional Staff	9.0	9.0	\$239,683	\$230,285	\$469,968
2. Leg. Branch Automation Plan	0	0	19,107	18,359	37,466
3. Adjusted Cost Estimate	<u>0</u>	<u>0</u>	<u>16,516</u>	<u>15,870</u>	<u>32,386</u>
Total	9.0	9.0	\$275,306	\$264,514	\$539,820

Additional Audit Staff

The office requests \$469,968 in the 1993 biennium to provide 9.0 FTE additional staff. The additional staff would be funded 51 percent by general fund and 49 percent by state special revenue. Since fiscal 1985 when the agency was authorized its current level of 60.0 FTE, the number of required audits has increased by nearly 5,200 hours, requiring the equivalent of 7.3 FTE. In addition, starting in fiscal 1992, the office is required to conduct an annual financial audit of the State Compensation Mutual Insurance Fund, which will require approximately 0.5 FTE. Finally, the number of hours required for legislative requests and projects increased by nearly 12,000 hours during the last five years, or the equivalent of 8.8 FTE. The Legislative Audit Committee authorized a request for 9.0 additional FTE to meet statutory, federal, and legislative requirements and to handle the existing workload.

In the Executive Budget, the audit costs included in each agencies' budget are based on the addition of 4.5 FTE from this budget modification. The audit costs included in the LFA current level budgets for agencies do not include any modified budget cost allocations.

Legislative Branch Office Automation Plan

The office requests \$37,466 in the 1993 biennium for implementation of the Legislative Branch Plan for Office Automation. The plan would be funded 51 percent by general fund and 49 percent by state special revenue.

The 1989 legislature enacted House Bill 496 to establish a mechanism for computer system planning in the legislative branch; assure coordination of information system decisions amongst branch agencies; and enhance the coordination of the legislative branch systems with executive branch computer systems whenever possible. The bill created the Legislative Branch Computer

LEGISLATIVE AUDITOR

System Planning Council and required it to develop and maintain a legislative branch computer system plan.

The council met during the interim and adopted the Legislative Branch Office Automation Plan. The plan includes: 1) ensuring compatibility amongst branch agencies; 2) implementing an EDP equipment replacement plan; and 3) planning for future technology. This budget modification implements the office's portion of the plan.

Adjusted Cost Estimates

The office requests \$32,386 in the 1993 biennium for adjusted costs for consultants, data processing, printing, and subscriptions. The increase would

be funded 51 percent by general fund and 49 percent by state special revenue.

The majority of the increase represents the office's planned compliance with state and federal law and regulation. The amount for consultants represents an adjustment for a Peer Review required by Government Auditing Standards once every three years. The next Peer Review for the Legislative Auditor's office is scheduled for October 1991, at an approximate cost of \$20,000. The amount for consultants also includes \$10,000 per year for the statutorily required annual actuarial review of the State Compensation Insurance Fund. Other adjustments reflect increased use of the state's mainframe for completion of audits, increased subscription costs due to a prior budgeting error, and decreased printing costs.

LEGISLATIVE FISCAL ANALYST

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	17.50	18.00	17.50	18.00	.00
Personal Services	583,463	686,041	688,679	696,998	9.15%
Operating Expenses	96,822	163,199	112,903	152,337	2.01%
Equipment	17,818	20,297	2,500	2,500	-86.88%
Debt Service	<u>1,407</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>-100.00%</u>
Total Agency	\$699,510	\$869,537	\$804,082	\$851,835	5.54%
<u>Fund Sources</u>					
General Fund	<u>699,510</u>	<u>869,537</u>	<u>804,082</u>	<u>851,835</u>	<u>5.54%</u>
Total Funds	\$699,510	\$869,537	\$804,082	\$851,835	5.54%

Agency Description

The Office of the Legislative Fiscal Analyst (LFA) was established in 1974 to provide concentrated fiscal analysis of state government and to accumulate, compile, analyze, and furnish information bearing upon the financial matters of the state and policy issues of statewide importance. The duties of the office are provided in the Legislative Finance Act (Title 5, Chapter 12, MCA), which also established the Legislative Finance Committee.

Current Level Budget

The current level budget increases 5.5 percent over the 1991 biennium for two major reasons: 1) fiscal year 1990 operating expenditures were substantially lower than normal due to a change in directors during the year; and 2) substantial vacancy savings occurred in fiscal 1990. The budget request for fiscal 1992 and fiscal 1993 is less than the fiscal 1991 appropriation. Increases in personal services from the fiscal 1990 level are due to continuation of the fiscal 1991 pay plan increase in the 1993 biennium and full funding of authorized staff positions.

Operating expenses are reduced below the fiscal 1991 appropriated level due to reductions in staff travel and need for computer consultants. Computer development and maintenance are

currently provided by staff, eliminating the need for a computer consultant contract funded for the past several years. Inflationary adjustments in postage and small increases in fixed costs such as rent are included. Also included in operating expenses is \$10,000 per year for contingencies that may arise during the 1993 biennium. Historically, the legislature has approved a \$20,000 biennial line-item appropriation to allow the agency to address unforeseen problems or issues that may confront the legislature during an interim by contracting for legal assistance or specialized research. In fiscal 1990, \$1,230 of this biennial appropriation was spent.

The current level budget does not include \$10,080 per year for network fees paid to the Department of Administration. If the legislature approves the inclusion of the statewide network in computer charges for the 1993 biennium, this amount will need to be added to the budget.

Since the 1989 legislature appropriated funds to upgrade existing computer and printing equipment during the 1991 biennium, current level equipment includes only \$2,500 per year for the 1993 biennium to replace minor office equipment. Debt service payments for a copier ended in fiscal 1990.

The agency is funded entirely from the general fund.

LEGISLATIVE COUNCIL

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	43.70	53.70	43.70	53.70	.00
Personal Services	1,231,781	1,506,987	1,385,902	1,592,793	8.76%
Operating Expenses	861,433	600,188	970,812	901,170	28.08%
Equipment	120,432	85,700	67,183	74,057	-31.48%
Total Agency	\$2,213,646	\$2,192,875	\$2,423,897	\$2,568,020	13.28%
<u>Fund Sources</u>					
General Fund	1,806,225	2,192,875	1,523,256	2,056,537	-10.49%
State Revenue Fund	407,421	0	900,641	511,483	246.60%
Total Funds	\$2,213,646	\$2,192,875	\$2,423,897	\$2,568,020	13.28%

Agency Description

The Legislative Council provides a variety of support services to the legislature under the general supervision of an eight-member bipartisan committee composed of four members of the House of Representatives and four members of the Senate. Council services include: bill drafting and the engrossing and enrolling of bills; printing and distribution of legislative proceedings, session laws, and journals of the House and Senate; provision of legislative research and reference services; legal counseling for the legislature; committee staffing; provision of interim investigation authority; service as the agency of interstate cooperation; preparation and publication of the Montana Code Annotated statute text and annotations; review of the text of proposed ballot measures and proposed administrative rules; and other services as assigned by the legislature.

Current Level Budget

The current level appears to increase 13.3 percent in the 1993 biennium. However, this is not an actual increase because both the Interim Studies and Conferences and the Reimbursable Activities programs are funded by biennial appropriations in the 1991 biennium and therefore no budgeted amount shows in the Appropriated Fiscal 1991 column. If the balances remaining of the biennial appropriations were included in the 1991 biennium totals, the agency's current level is 1.4 percent higher than the current biennium. The Legislative Council Operations program is the only program of the agency that increases. The changes are discussed in the program narrative.

Budget Modifications

The Legislative Council is requesting eight budget modifications. These are shown in the table below and an explanation of each is included in the program budget narrative.

LEGISLATIVE COUNCIL

Budget Modifications

1993 Biennium

<u>Budget Modifications</u>	<u>FTE FY92</u>	<u>FTE FY93</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
1. Base Pay Adjustment			\$ 64,510		\$ 64,510
2. Council Pay Plan			117,737		117,737
3. Additional FTE	2.0	2.0	111,554		111,554
4. Reapportionment Tech. Support			149,699		149,699
5. Text DBMS Cost Increase				\$157,555	157,555
6. Districting and Apportionment			36,713		36,713
7. Dues and Travel			131,956		131,956
8. Interim Study	_____	_____	<u>68,020</u>	_____	<u>68,020</u>
Total	2.0	2.0	\$680,189	\$157,555	\$837,744

INTERIM STUDIES & CONFERENCES

<u>Budget Item</u>	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	2.00	2.00	2.00	2.00	.00
Personal Services	18,455	0	31,269	31,271	238.88%
Operating Expenses	129,854	0	155,070	155,066	138.83%
Total Program	\$148,309	\$0	\$186,339	\$186,337	151.28%
<u>Fund Sources</u>					
General Fund	144,352	0	180,339	180,337	149.86%
State Revenue Fund	3,957	0	6,000	6,000	203.26%
Total Funds	\$148,309	\$0	\$186,339	\$186,337	151.28%

Program Description

The Interim Studies and Conferences program exists to process and monitor the expenditures of the various legislative interim committees and conferences. Included in the program are: 1) limited support of interim studies activities established under Sections 5-5-202 through 5-5-217, MCA; 2) support of interstate cooperation activities of the legislature; and 3) support of other legislative activities for which appropriations are made.

Current Level Budget

The program's \$372,676 current level budget remains at nearly the level appropriated for the 1991 biennium. The unspent balance of this biennial appropriation is not shown in the fiscal 1991 appropriation column above.

The Legislative Council has proposed several changes for the upcoming biennium. The current level budget includes no funding for the Capitol Building and Planning Committee, and the council proposes no funding. A bill to abolish the committee has been approved by the council. The budget also deletes funding for the Western States Legislative Forestry Task Force, the Montana-Western Canadian Provinces Boundary Advisory Committee, and the Five-State Legislative Conference. Offsetting these reductions, the council

proposes a \$20,000 budget for regional conferences to be allocated by the council. Other funded activities include (for the biennium) prioritized interim studies (\$39,450); Council of State Governments (CSG)/Western Legislative Conference and the National Conference of State Legislatures (NCSL) (dues and legislator travel) (\$235,708); Administrative Code Committee (\$14,048); Revenue Oversight Committee (\$37,984); Coal Tax Oversight Subcommittee (\$12,000); Montana Districting and Apportionment Commission (\$6,287) and Committee on Indian Affairs (\$7,200).

Funding for the program is from the general fund with the exception of the Coal Tax Oversight Subcommittee, which is funded from coal tax local impact funds.

Budget Modifications

Districting and Apportionment

This modification is the increased budget needed to support operation of the decennial districting and apportionment process. The budget will fund commission salaries, travel, printing, and communications for the Montana Districting and Apportionment Commission. The \$36,713 general fund biennial amount is shown in the Executive Budget split between the fiscal years but is, in fact, a biennial appropriation request.

INTERIM STUDIES & CONFERENCES

Dues and Travel

This \$131,956 general fund biennial modification, together with the current level budget, would allow full payment of dues to organizations such as CSG and NCSL that received only partial payment in past years. It also provides an increase above the base to fully fund legislator travel to assigned committees

within the traditional number of assignments.

Interim Studies

This \$68,020 general fund biennial modification, together with the current level budget, would fully fund the interim study process in accordance with Legislative Council plans.

REIMBURSABLE ACTIVITIES PROGRAM

<u>Budget Item</u>	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	.00	.00	.00	.00	.00
Personal Services	1,582	0	0	0	-100.00%
Operating Expenses	380,199	0	435,915	251,120	80.70%
Equipment	21,683	0	0	0	-100.00%
Total Program	\$403,464	\$0	\$435,915	\$251,120	70.28%
<u>Fund Sources</u>					
State Revenue Fund	403,464	0	435,915	251,120	70.28%
Total Funds	\$403,464	\$0	\$435,915	\$251,120	70.28%

Program Description

The Reimbursable Activities program supports the publication and distribution of the Montana Code Annotated text, annotations, and ancillary publications issued under Sections 1-11-301 and 1-11-303, MCA. It also supports the provision of other reimbursable services provided by the Legislative Council office.

Council Operations program prior to the beginning of the 1993 biennium.

Funding for the Reimbursable Activities program is state special revenue derived from sales of products and services.

Budget Modification

Increased Cost Estimates

TextDBMS, which has replaced the ALTER program, is a mainframe text processing system now used to process bills, the Montana Code Annotated, and other documents. This modification funds \$157,555 of TextDBMS costs for preparation of the Montana Code Annotated statute text and annotations that previously were budgeted in the Legislative Council Operations program. This increase is necessary because of the added data base size and differences in how the program runs on the mainframe compared to ALTER.

Current Level Budget

The current level budget is the same as appropriated by the 1989 legislature--a \$687,035 biennial appropriation. The unspent balance of this biennial appropriation does not appear in the fiscal 1991 appropriation above. While the budget for this program is presented separately, the Legislative Council plans to merge the Reimbursable Activities program into the Legislative

LEGISLATIVE COUNCIL OPERATIONS PROGRAM

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	41.70	51.70	41.70	51.70	.00
Personal Services	1,211,744	1,506,987	1,354,633	1,561,522	7.26%
Operating Expenses	351,380	600,188	379,827	494,984	-8.07%
Equipment	98,749	85,700	67,183	74,057	-23.43%
Total Program	\$1,661,873	\$2,192,875	\$1,801,643	\$2,130,563	2.01%
<u>Fund Sources</u>					
General Fund	1,661,873	2,192,875	1,342,917	1,876,200	-16.49%
State Revenue Fund	0	0	458,726	254,363	.00%
Total Funds	\$1,661,873	\$2,192,875	\$1,801,643	\$2,130,563	2.01%

Program Description

The Legislative Council Operations program provides for overall policy direction of the agency through the Legislative Council. The program also provides the personnel required to support the programs of the agency, including an executive director and staff that assist in the preparation of proposed legislation, standing and select committee reports and recommendations, and carry out other council activities.

Current Level Budget

The current level budget increases 2 percent from the 1991 biennium to the 1993 biennium primarily in personal services. Approximately 2.3 percent of the personal services increase is related to vacancy savings, 2.5 percent would be the fiscal 1991 pay plan continuing into the 1993 biennium, and the remaining 2.5 percent is the result of salary changes which reflect funding the existing staff through the 1993 biennium.

Operating expenses decrease 8.1 percent because of the higher fiscal 1991 budget. In comparing fiscal 1990 actual expenditures to fiscal 1992, there is an 8.1 percent increase (\$28,500). The major changes from the fiscal 1990 base are: 1) data processing costs increase a net of \$4,300 reflecting the proposed

new network fee costs offset by decreases in mainframe costs for bill processing; 2) travel increases approximately \$10,500; 3) repair costs increase \$10,000 primarily for computer maintenance contracts; 4) printing costs increase \$1,000; 5) messenger services for central mail are increased by \$1,450; and 6) rent paid to the Department of Administration is increased by \$2,400. The operating expenses increase another \$115,157 from fiscal 1992 to fiscal 1993 because fiscal 1993 is a session year. These increases are in: 1) data processing services costs of \$89,000 and data processing supplies of \$13,000; 2) office supplies of \$7,000; 3) maintenance contracts for computers of \$4,000; 4) long distance calls of \$1,000; and 5) subscriptions of \$1,400.

The equipment budget decreases by \$43,000 or 23.4 percent. The council plans to purchase replacement computer equipment and software with this budget in order to maintain current levels of technology.

The program funding changes between the two biennia. State special revenue funding is utilized in the program, reducing general fund by 16.5 percent. The state special revenue fund is revenues from sale of the Montana Code Annotated. The council plans to charge the fund for personal services and operating expenses related to publishing the code incurred in the Operations program.

LEGISLATIVE COUNCIL OPERATIONS PROGRAM

Budget Modifications

1991 Base Pay Adjustment

In a major initiative, the Legislative Council adopted a pay plan in fiscal 1991 and adjusted salaries as provided in the plan. The adjustments were made after the personal services base used in preparing budgets for the 1993 biennium had been developed. This budget modification adjusts the base by adding \$34,161 in fiscal 1992 and \$30,349 in fiscal 1993 from the general fund to maintain funding for these authorized salary increases.

Council Pay Plan

The pay plan includes scheduled increases for career progression at a general fund cost of \$32,821 in fiscal 1992 and \$84,916 in fiscal 1993.

Two Additional FTE's

This modification would fund a director for the Management Division and a programmer/analyst. The Management Division director position is proposed

as a grade 15, which is equivalent to centralized services administrators in the executive branch. The programmer/analyst is budgeted at a training level of grade 11, step 5 in fiscal 1992 and at a grade 13, step 5 in fiscal 1993. The request is for general fund of \$53,859 in fiscal 1992 and \$57,695 in fiscal 1993.

Reapportionment Technical Support

This modification includes general fund of \$138,486 in fiscal 1992 and \$11,213 in fiscal 1993 for the acquisition of equipment, software, and data preparation and for training to enable staff of the Montana Districting and Apportionment Commission to use available census data to assist in reapportionment. Data preparation involves loading, converting, and verifying electronic files provided by the Bureau of the Census. The resulting system would support the full range of reapportionment activities, from consideration of legislative district options to publication of final maps. In subsequent years, the system would be available for legislative use in other geographical analyses.

ENVIRONMENTAL QUALITY COUNCIL

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	6.50	6.50	6.50	6.50	.00
Personal Services	178,453	192,073	213,971	213,555	15.38%
Operating Expenses	45,430	57,745	60,424	56,832	13.65%
Equipment	<u>4,933</u>	<u>3,000</u>	<u>5,000</u>	<u>5,000</u>	<u>26.06%</u>
Total Agency	\$228,816	\$252,818	\$279,395	\$275,387	15.19%
<u>Fund Sources</u>					
General Fund	221,781	252,654	266,170	262,161	11.36%
State Revenue Fund	<u>7,035</u>	<u>164</u>	<u>13,225</u>	<u>13,226</u>	<u>267.43%</u>
Total Funds	\$228,816	\$252,818	\$279,395	\$275,387	15.19%

Agency Description

The Environmental Quality Council (EQC) was created in 1971 to implement provisions of the Montana Environmental Policy Act (MEPA - Title 75, Chapter 1, MCA). Two programs exist within the agency. The Environmental Quality Council Program is responsible for the general EQC program and for the environmental quality goals established in MEPA. The Water Policy Committee Program is responsible for advising the legislature on state water policy and utilizes the staff of the EQC for support.

mental Quality Council and the Water Policy Committee. The EQC program is supported entirely by general fund and the Water Policy Program is supported through resource indemnity trust state special revenue funds. The Water Policy Committee funding was a biennial appropriation for the 1991 biennium that is misleading on the above table because nearly all the appropriation is shown in the fiscal 1990 column but was not spent until 1991. For the 1993 biennium, the Water Policy Committee funding is again proposed as a biennial appropriation at the same level as in the 1991 biennium. However, funds are evenly divided between the two fiscal years.

Current Level Budget

The 1993 biennium budget for the EQC is presented as approved by the Environ-

ENVIRONMENTAL QUALITY PROGRAM

<u>Budget Item</u>	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	6.25	6.25	6.25	6.25	.00
Personal Services	176,535	191,909	211,206	210,789	14.53%
Operating Expenses	40,313	57,745	49,964	46,372	-1.76%
Equipment	4,933	3,000	5,000	5,000	26.06%
Total Program	\$221,781	\$252,654	\$266,170	\$262,161	11.36%
<u>Fund Sources</u>					
General Fund	221,781	252,654	266,170	262,161	11.36%
Total Funds	\$221,781	\$252,654	\$266,170	\$262,161	11.36%

Program Description

The Environmental Quality Council (EQC) Program is charged with implementing the provisions of the Montana Environmental Policy Act (MEPA), performing numerous other statutory duties, and completing projects that are assigned to it by the legislature. The EQC reviews the policies and programs of state agencies that concern environmental matters and natural resource development and conservation. The council researches and analyzes environmental trends and problems and recommends ways to improve the state's natural, social, and economic environments. It assists the legislature with natural resource legislation and staffs the natural resources standing committees and the Water Policy Committee.

Current Level Budget

The current level budget increases 11.4 percent over the 1991 biennium for the following reasons: 1) substantial vacancy savings occurred in fiscal 1990; 2) operating expenses were lower in fiscal 1990 than anticipated; and 3) the EQC modified its budget through operating plan amendments that moved funds from operating expenses into personal services to provide salaries at levels comparable to other legislative agencies. Increases in personal services costs are due to these operating plan amendments, full funding of authorized staff positions, and

continuation of the fiscal 1991 pay plan increase in the 1993 biennium.

Operating expenses are reduced below the fiscal 1991 appropriated level because the EQC reduced travel, contracted services, and rent to economize in these areas and to more adequately fund personal services and equipment. The current level budget includes \$2,040 each year for network fees paid to the Department of Administration. If the legislature decides not to approve the statewide network budget modification, this amount can be subtracted from the budget.

Equipment expenditures increase from \$3,000 to \$5,000 per year in accordance with the Legislative Agency Network standards and plans. This level is the same as the equipment budget established in the EQC's operating plan amendments for both fiscal 1990 and 1991. The EQC program is funded entirely from the general fund.

Budget Modification

The EQC has requested \$31,600 general fund for the biennium for an additional 0.5 FTE for coordination, oversight, and liaison to executive agencies for compliance with MEPA. Over the past several years, EQC staff has been called upon to staff new legislative committees and conduct interim studies to the detriment of its MEPA responsibilities. No additional staff has previously been added to accomplish these assignments.

WATER POLICY COMMITTEE

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	.25	.25	.25	.25	.00
Personal Services	1,918	164	2,765	2,766	165.66%
Operating Expenses	<u>5,117</u>	<u>0</u>	<u>10,460</u>	<u>10,460</u>	<u>308.83%</u>
Total Program	\$7,035	\$164	\$13,225	\$13,226	267.43%
<u>Fund Sources</u>					
State Revenue Fund	<u>7,035</u>	<u>164</u>	<u>13,225</u>	<u>13,226</u>	<u>267.43%</u>
Total Funds	<u>\$7,035</u>	<u>\$164</u>	<u>\$13,225</u>	<u>\$13,226</u>	<u>267.43%</u>

Program Description

The Water Policy program was established to operate the Water Policy Committee, statutorily created by the Forty-ninth Legislature. The Water Policy Committee's duties include advising the legislature on the adequacy of the state's water policy and on important state, regional, national, and international developments relating to Montana's water resources; overseeing the policies and activities of the Department of Natural Resources and Conservation and other entities as they relate to water management; analyzing and commenting on the state water plan, the water development program, water research, the water leasing pilot pro-

gram, and water data management system; and reporting to the legislature each biennium.

Current Level Budget

The Water Policy Committee operations budget is essentially the same as in previous years. The program received a biennial appropriation of \$26,281 in fiscal year 1990. Because the committee receives a biennial appropriation, comparison of actual expenses in fiscal year 1990 to the proposed budget is misleading. The only change in the budget over the last biennium is the continuation of the fiscal 1991 pay plan increase for salaries for committee members in the 1993 biennium.

CONSUMER COUNSEL

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	4.25	4.25	4.25	4.25	.00
Personal Services	190,030	195,868	202,796	202,072	4.92%
Operating Expenses	424,395	691,194	694,093	713,001	26.13%
Equipment	<u>5,606</u>	<u>1,260</u>	<u>1,710</u>	<u>1,710</u>	<u>-50.19%</u>
Total Agency	\$620,031	\$888,322	\$898,599	\$916,783	20.36%
<u>Fund Sources</u>					
State Revenue Fund	<u>620,031</u>	<u>888,322</u>	<u>898,599</u>	<u>916,783</u>	<u>20.36%</u>
Total Funds	\$620,031	\$888,322	\$898,599	\$916,783	20.36%

Agency Description

The Office of the Consumer Counsel was created by Article XIII, Section 2 of the 1972 Montana Constitution. The office is governed by Title 5, Chapter 15, MCA, and by Title 69, Chapters 1 and 2, MCA. The Consumer Counsel is charged with the duty of "representing consumer interests in hearings before the Public Service Commission or any other successor agency." The Consumer Counsel also may initiate, intervene in, or otherwise participate in appropriate proceedings in the state and federal courts and in proceedings before federal administrative agencies on behalf of the public of Montana. The office is funded through a constitutionally earmarked tax on all regulated entities under the Public Service Commission's jurisdiction.

Current Level Budget

The agency's 1993 biennium current level increases 20.4 percent compared to the

1991 biennium, due to a lower caseload than anticipated in fiscal 1990. As in previous years, the 1993 biennium current level budget consists of a base appropriation for normal operating costs and a \$100,000 contingency appropriation for costs associated with unanticipated increased caseload.

Personal services increase due to the fiscal 1991 pay plan increase. Operating costs increase primarily due to an anticipated increased caseload over fiscal 1990, when the agency expended only 59 percent of the amount appropriated for consultants. Equipment requested in the 1993 biennium is for office equipment.

Budget Modification

Additional Travel Costs

The agency has requested \$13,198 in state special revenue funds in the 1993 biennium for increased travel costs due to changed air fare rate structures and increased federal regulatory activity.

COMPARISON OF EXECUTIVE AND LFA CURRENT LEVELS

JUDICIARY

Budget Item	Executive Current Level		LFA Current Level		Executive Over (Under) LFA
	Fiscal 1992	Fiscal 1993	Fiscal 1992	Fiscal 1993	
FTE	89.50	89.50	88.50	88.50	1.00
Personal Services	4,170,427	4,158,888	4,151,723	4,140,298	37,294
Operating Expenses	1,085,209	1,083,342	973,447	977,671	217,433
Equipment	302,264	298,425	261,614	252,526	86,549
Total Agency	\$5,557,900	\$5,540,655	\$5,386,784	\$5,370,495	\$341,276
<u>Fund Sources</u>					
General Fund	5,082,807	5,067,623	4,925,259	4,915,056	310,115
State Revenue Fund	475,093	473,032	461,525	455,439	31,161
Total Funds	\$5,557,900	\$5,540,655	\$5,386,784	\$5,370,495	\$341,276

Executive Budget Comparison

The current level Executive Budget is \$341,276 higher than the LFA current level over the biennium. The largest difference is in contracted services, where the Executive Budget exceeds the LFA current level by \$156,525 over the biennium. Two of the significant increases in contracted services in the Executive Budget are \$70,000 for legal data bases and \$31,000 for network fees proposed by the Department of Administration. The Executive Budget is also higher than the LFA current level budget in travel (\$57,000) and training (\$28,000). Some of these increases are discussed in the following issues.

The LFA current level includes \$2,606 more in inflationary adjustments than the Executive Budget. Other cost differences between the two budgets are related to the Executive Budget's use of the fiscal 1991 appropriation as the base compared to the LFA's use of fiscal 1990 actual costs.

The Executive Budget equipment is \$86,549 higher than the LFA current level. The following items comprise the major differences: \$40,000 in computer equipment and software for district courts; \$20,000 in law library books; \$12,000 in computer equipment in other department programs; and \$8,400 in other office equipment.

New Current Level FTE

The Executive Budget contains 1.0 FTE not authorized by the last legislative session, accounting for the differences in personal services costs. The FTE is added to the Water Courts Supervision program and overtime expenditures and contracted legal services are reduced to fund the FTE. This additional FTE increases personal services costs in the Executive Budget by approximately \$30,000 over the biennium. The increase in personal services is funded from state special revenue funds, accounting for the differences between the Executive Budget and LFA current level state revenue funding.

Legal Data Bases

The Executive Budget includes about \$70,000 more in general fund for computer processing time for legal data bases. The Law Library charges for use of the data bases and deposits revenues to the general fund. The LFA current level budget for this item is based on the projected annual rate of growth between fiscal 1990 and 1991, while the Executive Budget allows for substantially higher growth. A more detailed discussion of this issue, including historic expenditures for legal data bases, is presented in the Law Library program narrative.

JUDICIARY

Increased Training Income and Expenses

The Executive Budget includes \$28,000 more for training than does the LFA current level budget. The cost of training is offset by tuition fees charged to judges and deposited to the general fund. The increase is reflected in travel, contracted services, supplies, and rent.

Montana Chiropractic Legal Panel

The Executive Budget contains \$26,000 of state special revenue authority over the biennium to fund the Montana Chiropractic Legal Panel, which is administratively attached to Judiciary. The LFA current level budget does not

include this program, as it is funded through a statutory appropriation. The Montana Chiropractic Legal Panel is presented as a separate agency in the Executive Budget and is not included in the above table.

Budget Modifications

In addition to the \$11.1 million included in the Executive Budget current level for the 1993 biennium, an additional 2.0 FTE and \$203,293 in general fund are included as budget modifications. The Judiciary will present 14 additional budget modifications totalling \$575,086 to the legislature. These budget modifications are discussed in the program narratives.

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Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	88.50	88.50	88.50	88.50	.00
Personal Services	3,882,671	4,070,259	4,151,723	4,140,298	4.26%
Operating Expenses	936,054	964,470	973,447	977,671	2.66%
Equipment	246,018	234,554	261,614	252,526	6.99%
Total Agency	\$5,064,743	\$5,269,283	\$5,386,784	\$5,370,495	4.10%
<u>Fund Sources</u>					
General Fund	4,635,475	4,836,053	4,925,259	4,915,056	3.89%
State Revenue Fund	429,268	433,230	461,525	455,439	6.31%
Total Funds	\$5,064,743	\$5,269,283	\$5,386,784	\$5,370,495	4.10%

Agency Description

The judicial branch of state government is provided for in Article III, Section I, and Article VII of the 1972 Montana Constitution. The jurisdiction of the Supreme Court consists of all appellate and original jurisdiction in petitions for writs of habeas corpus and other such writs, general supervisory control over all courts, and rule making powers for Montana courts.

1990. Fiscal 1990 deposits to the general fund offset about 4 percent of agency general fund expenditures. With the exception of Water Court Supervision, all programs in the Judiciary are supported by general fund. The Water Court is funded from the water development state special revenue account.

Table 1
Revenues Collected by the
Judiciary
Fiscal 1990 Actual

Current Level Budget

The current level budget increases 4.1 percent. Budgeting the full salary of the Water Court judge, continuation of the fiscal 1991 pay plan increase into the 1993 biennium, and authorization of pay raises greater than 2.5 percent in fiscal 1990 for several positions cause current level personal services costs to increase by 4.3 percent. Operating costs increase due to adjustments for inflation and fixed costs. Equipment increases are mostly due to inflationary adjustments for Law Library book purchases. Fiscal 1992 equipment costs are higher than fiscal 1993 as several sets of the Montana Code Annotated are purchased for the code exchange among states.

Several functions in the Judiciary collect fees which are deposited to the general fund. Table 1 shows the revenue collected from these functions in fiscal

Revenue	Fiscal 1990 Actual
General	
Tuition/Training	\$23,606
Bar Exam Fees	10,024
Attorney Character and Fitness Fees	<u>9,245</u>
Subtotal	<u>\$42,875</u>
Law Library	
Legal Database	\$121,376
Photocopy Receipts	17,236
Video Tape Rentals	<u>8,550</u>
Subtotal	<u>\$147,162</u>
Total	<u>\$190,037</u>

JUDICIARY

Issue

Court Automation

The 1989 legislature passed House Bill 320 which appropriated \$203,162 general fund over the biennium to hire 2.0 FTE and develop a pilot court automation project. The Judiciary has accomplished several tasks toward completion of the project. Two staff members were hired, completed an evaluation of existing court management computer systems, installed a data base system in the First Judicial District, and are developing court management software. The staff have conducted training for various courts on word processing, spreadsheet, calendaring, and case management programs. Equipment and operating system and word processing software have been purchased and installed to integrate the First Judicial District on a computer network. Additionally, civil case management, random jury selection, and citations software modules have been developed and installed for use and testing in the district.

The Judiciary has requested \$467,172 in the 1993 biennium for court automation. As shown in Table 2, most of these funds would be used to continue development of court management software and fund initial purchases of computer equipment for use in district courts. The planned software development for district courts and courts of limited jurisdiction includes criminal, juvenile, and probate case processing; fee collections and trust fund accounting; civil and small claims case tracking; and automated calendaring. Along with the software design and development, staff would continue to install equipment in district courts and provide on-site training for judges, clerks of district court, and limited jurisdiction judges. The Water Court is requesting \$41,391 to replace a word processing system with a personal computer (PC) system that could utilize the court management software being developed with House Bill 320 funds. The Law Library is requesting \$27,465 to install an automated book check-out system.

JUDICIARY

Table 2
Court Automation Requests for All Programs

<u>Program</u>	<u>Personal Services</u>	<u>Operations</u>	<u>Equipment</u>	<u>Annual Total</u>	<u>Biennial Total</u>
Court Operations					
Fiscal 1992	\$63,844	\$13,767	\$41,545	\$119,156	
Fiscal 1993	63,720	13,767	44,174	121,661	\$240,817
Law Library					
Fiscal 1992		13,500	10,965	24,465	
Fiscal 1993			3,000	3,000	27,465
District Courts					
Fiscal 1992			77,762	77,762	
Fiscal 1993			79,737	79,737	157,499
Water Court Supervision					
Fiscal 1992			26,391	26,391	
Fiscal 1993			15,000	15,000	41,391
Total Request					
Fiscal 1992	\$63,844	\$27,267	\$156,663	\$247,774	
Fiscal 1993	63,720	13,767	141,911	219,398	\$467,172
Biennial Funding					
General Fund	\$127,564	\$41,034	\$257,183		\$425,781
State Special	<u>0</u>	<u>0</u>	<u>41,391</u>		<u>41,391</u>
Total Funds	\$127,564	\$41,034	\$298,574		\$467,172

As the following table shows, the Executive Budget includes \$203,293 of the requested \$240,817 for automation of court operations. The Judiciary has

indicated that it will present the additional modified budget requests listed in the "Elected Official Budget Modifications" table.

Executive Budget Modification 1993 Biennium

<u>Budget Modification</u>	<u>FTE FY92</u>	<u>FTE FY93</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
1) Court Automation--HB320	2.0	2.0	\$203,293	\$0	\$203,293

JUDICIARY

Elected Official Budget Modifications 1993 Biennium

<u>Budget Modifications</u>	<u>FTE FY92</u>	<u>FTE FY93</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
1) Upgrades for Law Clerks			\$57,212	\$0	\$57,212
2) Software Upgrades			34,737	0	34,737
3) Retired Judge Training			5,000	0	5,000
4) Clerk of Court Training			8,000	0	8,000
5) Courts of Limited Jurisdiction Training			28,000	0	28,000
6) Law Library Book Purchases			78,973	0	78,973
7) Compactible Book Shelving			16,625	0	16,625
8) Position Upgrade Law Library			11,046	0	11,046
9) Automated Book Check Out			27,465	0	27,465
10) District Court Automation			157,499	0	157,499
11) Water Court Automation			0	41,391	41,391
12) Pay Increases for Water Masters			0	50,000	50,000
13) Clerk of Court Microfilm Costs			49,138	0	49,138
14) Clerk of Court Postage Costs			10,000	0	10,000
Total	0.0	0.0	\$483,695	\$91,391	\$575,086

SUPREME COURT OPERATIONS

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	32.00	32.00	28.00	28.00	-4.00
Personal Services	971,058	1,140,902	1,031,721	1,029,752	-2.39%
Operating Expenses	276,304	296,630	302,501	305,343	6.09%
Equipment	11,951	16,116	11,060	8,295	-31.04%
Total Program	\$1,259,313	\$1,453,648	\$1,345,282	\$1,343,390	-.90%
Fund Sources					
General Fund	1,259,313	1,453,648	1,345,282	1,343,390	-.90%
Total Funds	\$1,259,313	\$1,453,648	\$1,345,282	\$1,343,390	-.90%

Program Description

The Supreme Court has appellate jurisdiction for the State of Montana. It has original jurisdiction to issue, hear, and determine writs of habeas corpus and such other writs as may be provided by law. In addition, it has general supervisory control over all other courts in the state. The Supreme Court is also charged with establishing rules governing appellate procedure, the practice and procedure for all other courts, admission to the bar, and the conduct of its members. The Supreme Court consists of a chief justice and

six justices. The Supreme Court Operations program manages day-to-day operations of the court.

Current Level Budget

The current level request for this program appears to be lower than the 1991 biennium. However, 4.0 FTE and operating expenses were reorganized into a new program, the Clerk of Court. When adjustments are made for that change, the current level for Supreme Court Operations actually increases approximately 5 percent over the two biennia.

Table 3
Comparison of 1991 Biennium to Current Level Budget for 1993 Biennium

Budget Item	FY90 Actuals	FY91 Budgeted	Clerk of Court Reorg.	FY91 Revised Budget	1991 Revised Biennium	1993 Biennium	1991-93 % Biennium Change
FTE	32.00	32.00	4.00	28.00	28.00	28.00	
Personal Services	\$971,058	\$1,140,902	\$128,051	\$1,012,851	\$1,983,909	\$2,061,473	3.91
Operating	276,304	296,630	21,480	275,150	551,454	607,844	10.23
Equipment	11,951	16,116	2,000	14,116	26,067	19,355	(25.75)
Total	\$1,259,313	\$1,453,648	\$151,531	\$1,302,117	\$2,561,430	\$2,688,672	4.97

Personal services rise due to vacancy savings in fiscal 1990 and fiscal 1991 pay plan increases continued in the 1993 biennium. Pay increases for exempt

staff averaged more than 2.5 percent. Three positions received raises of 20 percent or more.

SUPREME COURT OPERATIONS

Operating costs rise due mainly to increases in audit fees, insurance, rent, grounds maintenance fees, and inflationary adjustments. Current level also includes: 1) costs for character and fitness examinations for applicants to the Montana Bar equal to the actual fiscal 1990 revenue generated for that activity; and 2) a small increase in training costs to facilitate law clerks' use of Westlaw, an automated legal database.

Current level equipment includes a PC, monitor, printer, and word processing software for each Supreme Court justice (four in fiscal 1992 and three in fiscal 1993).

Supreme Court Operations is funded entirely by general fund. However, the program collects fees for some services which are deposited to the general fund. Such collections offset about \$9,245 of its fiscal 1990 operating expenses.

Executive Budget Modifications

Data Processing Staff

House Bill 320 enacted by the 1989 legislature appropriated funds to purchase hardware and software for a pilot automation project and authorized 2.0 FTE to begin development of uniform software applications and computer training for district courts and courts of limited jurisdiction. This request continues the FTE and software development and support at a biennial cost of \$203,293 from the general fund. This modification is included in the court automation issue presented in the agency narrative.

Elected Official Budget Modifications

Salary Increase for Law Clerks

The program is requesting salary increases for 14 law clerks who assist the justices of the Supreme Court. Although all the positions are exempt

from classification on the state pay matrix, 12 of the positions are paid at a rate equivalent to a grade 13, step 2. The remaining two are paid the equivalent of a grade 15, step 7 and a grade 13, step 3. The agency modification would allow nine positions to be paid at a grade 14, step 2; four positions at a grade 14, step 3; and one position at a grade 16, step 7. The total cost of the increases would be \$57,212 general fund over the biennium.

Request for Computer Software

The Judiciary is requesting \$34,737 to purchase single-user software. The software would be distributed to different courts to insure compatibility between automated systems in all courts. This software will allow case management and calendar software developed through the court automation process to be used on PC's in different courts. This modification is included in the court automation issue presented in the agency narrative.

Retired Judge Training

The Judiciary is requesting \$5,000 general fund over the biennium to pay for travel, lodging, meals, and registration expenses for six to eight retired judges to attend the Fall Montana Judges' Conference and continuing legal education courses. Since retired judges are hired to handle court cases when active judges in the Supreme Court and district courts are unavailable or unable to preside on cases, the Judiciary seeks these funds to help retired judges keep their legal education current.

Clerk of Court Training

The Judiciary is requesting \$8,000 of general fund over the biennium for travel, meals, lodging, and materials for individuals presenting training during the annual Clerk of Court Training School, which provides training to improve operations of clerk offices.

BOARDS AND COMMISSIONS

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	3.00	3.00	3.00	3.00	.00
Personal Services	87,082	88,808	91,245	91,290	3.78%
Operating Expenses	116,794	121,804	118,019	114,571	-2.52%
Equipment	491	800	0	0	-100.00%
Total Program	\$204,367	\$211,412	\$209,264	\$205,861	-.16%
<u>Fund Sources</u>					
General Fund	204,367	211,412	209,264	205,861	-.16%
Total Funds	\$204,367	\$211,412	\$209,264	\$205,861	-.16%

Program Description

The Boards and Commissions program oversees functions assigned to the Supreme Court either by legislative or constitutional mandate. Boards and commissions manage judicial discipline, rules, admission to the bar, and various other substantive issues aimed at improving and maintaining the administration of justice. Each commission or board and its duties are summarized below.

Judicial Standards Commission. The commission investigates complaints and makes recommendations regarding the conduct of judicial officers (Article VII, Section 11; Title 3, Chapter 1, Part 11, MCA).

Commission on the Use of Appropriate Technology in the Montana Judiciary. The commission is examining the use of computers in the judiciary and will recommend to the court changes and alternatives to improve the operation of the judicial system.

Sentence Review Division. The three-judge division reviews sentences imposed on convicted felons in the state. Upon application by an inmate, the division may increase, decrease, or affirm a prisoner's sentence (Section 46-15-904, MCA).

Board of Bar Examiners. This board conducts and assists in conducting the

examination of applicants for admission to the bar (Section 37-61-Part 1, MCA).

Judicial Nominations Commission. The seven-member commission provides a list of candidates to the Governor for appointment to fill any vacancy on the Supreme Court or District Court and to the Chief Justice of the Supreme Court for appointment to fill any vacancy for the chief water judge (Article VII, Section 8; and Title 3, Chapter 1, Part 10, MCA).

Commission on Courts of Limited Jurisdiction. The commission recommends to the Supreme Court rules of practice and procedure designed to improve the practices of courts of limited jurisdiction. The commission also organizes and oversees training and certification of justices of the peace and city judges (Article VII, Section 2; Title 3, Chapter 1, Part 15, Sections 3-10-203 and 3-11-204, MCA).

Commission on Practice. The commission investigates complaints filed against members of the State Bar of Montana, conducts hearings and formal disciplinary proceedings, administers admonitions, and makes disciplinary recommendations to the Supreme Court.

Advisory Commission on Rules of Civil Procedure and Appellate Procedure. The commission assists the court in considering and preparing rules to regulate the pleading, practice, procedure, and the forms thereof in

BOARDS AND COMMISSIONS

civil actions in all Montana courts (Section 3-2-702, MCA).

Commission on the Rules of Criminal Procedure. The commission prepares for consideration by the Supreme Court proposed criminal procedure guidelines that courts, lawyers, and defendants must follow.

Commission on Uniform District Court Rules. The commission monitors, reviews, and proposes revisions to uniform district court rules for consideration by the Supreme Court.

Current Level Budget

The current level budget remains at the 1991 biennium level.

Personal services increase 3.8 percent. A pay raise granted to one position accounts for about half of the change in personal services between the biennia.

Vacancy savings experienced in fiscal 1990 and continuation of fiscal 1991 pay plan increases in the 1993 biennium account for the remainder of the increase.

Operating costs decrease slightly due to the removal of certification training costs that will not reoccur until fiscal 1994. Fiscal 1992 operating costs are higher than fiscal 1990 actual expenditures due to an increase in contracted services to update judge's bench books to reflect legislative changes.

Table 4 shows actual expenditures for each commission and board in this program for the last three years. The Commission on Practice investigated a high number of complaints against attorneys, necessitating a supplemental appropriation of \$11,500 in fiscal 1990 which is not reflected in the main table.

Table 4
Fiscal 1988 to 1990 Actual Expenditures for Boards and Commissions

<u>Title of Board or Commission</u>	<u>--- Expenditures ---</u>		
	<u>FY88</u>	<u>FY89</u>	<u>FY90</u>
Judicial Standards	\$1,358	\$2,425	\$1,925
Sentence Review Board	26,933	26,755	27,336
Board of Bar Examiners	49,493	54,702	47,790
Judicial Nominations Commission	2,159	710	1,800
Commission on Courts of Limited Jurisdiction	42,224	43,134	44,460
Commission on Practice*	45,591	45,397	68,527
Commission on Rules Concerning the the Admission to Practice of Law	182	0	218
Commission on Court Technology	9,627	7,983	921
Training	213	98	22,279
Evidence	0	0	611
Civil Procedure	<u>0</u>	<u>413</u>	<u>0</u>
Total	\$177,780	\$181,617	\$215,867

*This Board received a supplemental appropriation of \$11,500 in fiscal 1990.

BOARDS AND COMMISSIONS

Elected Official Budget Modifications

Courts of Limited Jurisdiction Training

The Judiciary is requesting an additional \$28,000 general fund over the biennium for increased training for staff employed by courts of limited jurisdiction. Funds would be used to contract for professional presenters and for travel expenses, and copying and office supply costs. Fees are charged for the training and deposited to the

general fund. Fiscal year 1990 actual expenditures for training were \$21,850 and training revenue deposited to the general fund was \$22,186.

Line-Item Budget for Judicial Standards Commission

The Judiciary has asked that the appropriation for the Judicial Standards Commission be segregated in a line-item budget to reflect its constitutionally mandated status.

LAW LIBRARY

<u>Budget Item</u>	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	6.50	6.50	6.50	6.50	.00
Personal Services	169,526	178,069	180,000	179,825	3.52%
Operating Expenses	268,812	299,626	282,574	285,715	-.03%
Equipment	<u>225,243</u>	<u>215,638</u>	<u>235,347</u>	<u>234,424</u>	<u>6.55%</u>
Total Program	\$663,581	\$693,333	\$697,921	\$699,964	3.02%
<u>Fund Sources</u>					
General Fund	<u>663,581</u>	<u>693,333</u>	<u>697,921</u>	<u>699,964</u>	<u>3.02%</u>
Total Funds	<u>\$663,581</u>	<u>\$693,333</u>	<u>\$697,921</u>	<u>\$699,964</u>	<u>3.02%</u>

Program Description

The State Law Library is a reference source for members and staff of the Supreme Court, lower courts, members and staff of the legislature, state officers and employees, members of the bar, and the general public. The inventory of books and materials on-hand can be classified into the following categories: treatises, law reviews, reports, microfilm, and video/audio tapes for continuing legal education. The State Law Library is governed by a Board of Trustees consisting of the justices of the Supreme Court. The board appoints the Law Librarian.

clude \$6,000 per year for video tape replacement and two microform cabinets per year. Personal services costs rise due to allocation of pay plan to exempt positions resulting in pay increases averaging 5.8 percent annually, compared to a 5.1 percent average included in the pay plan bill.

Operating costs in fiscal 1992 and 1993 are higher than fiscal 1990 due to increases in the use of automated legal data bases. The Law Library recoups almost the entire cost of such services from user fees, which are deposited to the general fund. The program is entirely funded from the general fund.

Current Level Budget

The current level program budget increases 3.02 percent above the 1991 biennium. Most of the growth is due to inflation in book costs, which are included in the equipment category. Fiscal 1992 equipment is higher than fiscal 1993 due to a cyclical adjustment for the cost (\$12,175 in fiscal 1990) of purchasing copies of the Montana Code Annotated for the code exchange with other states. Equipment costs also in-

Issues

Automated Legal Data Bases

Table 5 shows the actual and estimated cost of automated legal data bases. The current level budget includes \$151,725 in fiscal 1992 and \$153,698 in fiscal 1993 for legal data bases, compared to the agency request of \$218,000 and \$220,000 for these years.

LAW LIBRARY

Table 5
Budgeted and Actual Expenditures for Automated Data Bases

<u>Fiscal Year</u>	<u>Budgeted Amount</u>	<u>Expenditures</u>	<u>Difference</u>	<u>Annual Percentage Rate of Change</u>
1988	\$67,025	\$71,971	\$(4,946)	NA
1989	162,175	124,702	37,473	73.27
1990	176,202	145,942	30,260	17.03
1991	176,202	149,778	26,424	2.63
1992	151,725	NA		1.30
1993	153,698	NA		1.30

Note: Fiscal 1991 expenditures estimated from first quarter experience.
NA means not available.

As can be seen from Table 5, the expenditures from legal data bases expanded rapidly between fiscal 1988 and 1989. Growth between fiscal 1989 and 1990 was still high, but based on the first quarter of fiscal 1991, the expansion in use of legal data bases appears to be slowing. With the exception of fiscal 1988, the actual expenditures were below the level appropriated in recent fiscal years. The current level budget projects a modest growth in the cost of legal data bases over the coming biennium. If the annual rate of increase for use of legal data bases proves to be difficult to project, the legislature could consider using a line-item appropriation to fund this activity.

Elected Official Budget Modifications

Book Budget

The program is requesting a \$78,973 general fund increase over the biennium to support book purchases. The request is an increase to the current level budget prior to application of inflation. Adding inflation to the request would increase the modification by \$5,806 general fund over the biennium.

Compactible Shelving

The Judiciary is requesting \$16,625 in general fund during the biennium to purchase moveable shelving. The shelving would require less space than conventional open stack book storage, alleviating crowding in the circulation and technical services area of the library.

Position Upgrade

The program is requesting funding for a pay increase for a reference librarian position. The program has conducted informal salary surveys with other western states to arrive at the requested increase. The biennial cost of the upgrade would be \$11,046 general fund.

Library Automation

The Law Library is requesting \$27,465 in general fund to purchase and install an automated book check-out system. The program estimates that there would be an ongoing database support cost of \$1,500 annually. This modification is included in the court automation issue presented in the agency narrative.

DISTRICT COURT OPERATIONS

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	36.00	36.00	36.00	36.00	.00
Personal Services	2,210,597	2,334,646	2,375,089	2,366,809	4.33%
Operating Expenses	134,330	143,014	136,300	137,953	-1.12%
Equipment	<u>5,796</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>-100.00%</u>
Total Program	\$2,350,723	\$2,477,660	\$2,511,389	\$2,504,762	3.89%
<u>Fund Sources</u>					
General Fund	<u>2,350,723</u>	<u>2,477,660</u>	<u>2,511,389</u>	<u>2,504,762</u>	<u>3.89%</u>
Total Funds	<u>\$2,350,723</u>	<u>\$2,477,660</u>	<u>\$2,511,389</u>	<u>\$2,504,762</u>	<u>3.89%</u>

Program Description

The District Court Operations program allocates monies to pay salaries, travel, and training expenses for 36 elected district judges throughout Montana's 20 judicial districts. Other operational costs of the district courts are paid by other state agencies and local governments. District courts are general jurisdiction trial courts having original jurisdiction in all criminal cases for felony cases and all civil matters and cases at law.

in fiscal 1992 and increased repair and maintenance for high-mileage lease cars in fiscal 1993. Operating costs decline overall as the amount budgeted in 1993 is higher than the fiscal 1990 actual expenditures. In fiscal 1990, operating expense authority was reallocated to buy computer equipment and software. The 1989 legislature did not provide an appropriation for equipment for this program in either year of the 1991 biennium.

Elected Official Budget Modifications

Court Automation

Current Level Request

Current level for the 1993 biennium is 3.89 percent higher than the 1991 biennium. The entire increase is in personal services costs, resulting from pay plan increases and vacancy savings in fiscal 1990. Increased contracted services to update and print revisions to the judge's bench book are included

The Judiciary is requesting \$157,499 in general fund over the biennium for court automation. The equipment request would fund purchase and installation of 12 PC's per year for district court judges. Such equipment would allow judges to use court management software being developed with House Bill 320 funds. This request is discussed in the agency overview.

WATER COURTS SUPERVISION

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	11.00	11.00	11.00	11.00	.00
Personal Services	316,962	327,834	343,601	342,860	6.46%
Operating Expenses	110,859	103,396	102,717	102,772	-4.09%
Equipment	1,447	2,000	15,207	9,807	625.67%
Total Program	\$429,268	\$433,230	\$461,525	\$455,439	6.31%
<u>Fund Sources</u>					
State Revenue Fund	429,268	433,230	461,525	455,439	6.31%
Total Funds	\$429,268	\$433,230	\$461,525	\$455,439	6.31%

Program Description

The Water Courts Supervision program adjudicates claims of existing water rights in Montana and supervises the distribution of water among the four water divisions of the state as defined in Section 3-7-102, MCA. The program goal is to expedite the adjudication of water rights established prior to 1973 and of existing water rights in all 85 water basins.

Current Level Budget

The 1993 biennium current level is 6.3 percent higher than the 1991 biennium, due mainly to increased personal services costs. There are four factors influencing personal services growth: 1) vacancy savings in fiscal 1990; 2) full implementation of the pay plan in fiscal 1992 and 1993; 3) a higher number of work hours in the 1993 biennium; and 4) budgeting the salary of the Water Court judge position at the statutorily mandated level (Section 3-7-222, MCA). The last legislature appropriated only part of the salary for that position as it was held by a retired judge, who received supplemental retirement pay.

Operating expenses decline as maintenance costs are reallocated to equipment purchases. Equipment includes one office recorder in fiscal 1992 and funds for purchase of PC's, monitors, software, and printers. The PC equipment is financed by discontinuing

the current level cost to maintain the existing word processing system which will be replaced. The program is funded from the water development state special revenue account, which receives revenue from resource indemnity trust interest and water development project revenues.

The program is budgeted for the same level of activity as in the 1991 biennium. Water Court activity is dependent to some degree on the number of water rights that the Department of Natural Resources and Conservation (DNRC) can review and process. Once DNRC has processed all water rights in a basin, the court issues a temporary preliminary decree for that basin and begins its work of resolving contested water rights. DNRC estimates that it will conclude its work in five basins in the 1993 biennium, compared to a planned completion of three basins in the 1991 biennium. There are 85 basins in the state and the Water Court has issued eight temporary preliminary decrees.

Elected Official Budget Modifications

Court Automation

This program requested \$41,391 for PC's and software over the biennium to replace its existing mini-computer and terminal system. The current level includes \$9,807 of computer equipment and software each year of the biennium through an internal reallocation of the fiscal 1990 cost to maintain the mini-computer system that will be replaced.

WATER COURTS SUPERVISION

If such an approach were adopted, the entire program request could be funded within current level appropriation authority over four years. A complete discussion of court automation is included in the agency overview.

Pay Increases for Water Masters

The program is requesting a pay increase for its five water master positions,

which are exempt from the state pay matrix. The current starting salary for a water master is \$26,880 (equivalent to a grade 17, step 1). The requested pay increase would raise the starting salary about 10 percent a year to \$29,625 (equivalent to a grade 17, step 3). The total cost of the increase would be about \$50,000 over the biennium. The program has experienced high turnover in these positions.

CLERK OF COURT

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	.00	.00	4.00	4.00	4.00
Personal Services	127,446	0	130,067	129,762	103.87%
Operating Expenses	28,955	0	31,336	31,317	116.38%
Equipment	<u>1,090</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>-100.00%</u>
Total Program	\$157,491	\$0	\$161,403	\$161,079	104.76%
<u>Fund Sources</u>					
General Fund	<u>157,491</u>	<u>0</u>	<u>161,403</u>	<u>161,079</u>	<u>104.76%</u>
Total Funds	\$157,491	\$0	\$161,403	\$161,079	104.76%

Program Description

The Clerk of Court program performs several support and operational duties for the Supreme Court. The program keeps the court records and files, issues writs and certificates, approves bonds as required, files all papers and transcripts, and performs such other duties as required by law and the rules and practice of the Supreme Court (Title 3, Chapter 2, Part 4, MCA).

Current Level Budget

The percentage changes in the main table for the Clerk of Court program do not accurately reflect the change from the 1991 biennium because the table does not include the \$151,531 general fund fiscal 1991 appropriation transferred from the Supreme Court Operations program to the Clerk of Court. When the fiscal 1991 appropriation is included, there is a 4.4 percent increase in the 1993 biennium cost of the program.

Table 6
Comparison of 1991 Biennium Budget to Current Level
1993 Biennium

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Approp. Fiscal 1991</u>	<u>-Current Level- Fiscal 1992</u>	<u>Fiscal 1993</u>	<u>% Change 1991-93 Biennium</u>
FTE	4.00	4.00	4.00	4.00	
Personal Services	\$127,446	\$128,051	\$130,067	\$129,762	1.70
Operating	28,955	21,480	31,336	31,317	24.23
Equipment	<u>1,090</u>	<u>2,000</u>	<u>0</u>	<u>0</u>	<u>-100.00</u>
Total Program	\$157,491	\$151,531	\$161,403	\$161,079	4.36

Personal services shows a slight increase due to the higher number of work hours in the 1993 biennium and

continuation of the fiscal 1991 pay increase. Operating costs rise due to increases in fixed costs and inflation, primarily in postage.

CLERK OF COURT

Elected Official Budget Modifications

Increased Microfilm Costs

The Clerk of Court stores Supreme Court cases, including all supporting documentation filed with such cases. The program is requesting \$49,138 general fund over the biennium to microfilm documents to forestall an anticipated shortage of storage space and facilitate public access to the documents.

Increase in Postage and Mailing

The Clerk of Court eliminated the practice of returning district court records by certified mail as a cost cutting measure. The program has requested \$10,000 general fund over the biennium to reinstate such functions. The modified request would also fund postage for an anticipated increase in the number of documents that must be mailed to boards and commissions.

COMPARISON OF EXECUTIVE AND LFA CURRENT LEVELS

GOVERNOR'S OFFICE

Budget Item	Executive Current Level		LFA Current Level		Executive Over (Under) LFA
	Fiscal 1992	Fiscal 1993	Fiscal 1992	Fiscal 1993	
FTE	59.20	59.20	58.70	58.70	0.50
Personal Services	2,156,365	2,156,884	2,146,279	2,144,822	22,148
Operating Expenses	823,076	900,615	785,554	849,790	88,347
Equipment	204,559	19,381	204,559	19,381	0
Total Agency	\$3,184,000	\$3,076,880	\$3,136,392	\$3,013,993	\$110,495
<u>Fund Sources</u>					
General Fund	2,650,264	2,543,231	2,627,438	2,505,257	60,800
State Revenue Fund	80,413	80,413	80,395	80,395	36
Federal Revenue Fund	453,323	453,236	428,559	428,341	49,659
Total Funds	\$3,184,000	\$3,076,880	\$3,136,392	\$3,013,993	\$110,495

Executive Budget Comparison

The Executive Budget is \$110,495 higher than the LFA current level for the 1993 biennium in personal services and operating expenses. In personal services, the LFA current level eliminates a vacant 0.5 FTE in the Pacific Northwest Electric Power and Conservation Planning Council (NWPPC) that the Executive Budget retains. In addition, LFA current level reduces overtime by \$2,000 in the Executive Office.

Operating expenses are \$88,347 higher for the biennium in the Executive Budget. The primary items that are included in the Executive Budget but not in the LFA current level are: 1) \$18,879 for the proposed Department of Administration's data processing network system and other processing costs; 2) \$20,494 for contract co-pilot costs in the Air Transportation program; 3)

\$13,071 of printing costs in the Office of Budget and Program Planning, since the office has significantly reduced its printing costs; and 4) over \$50,000 due to the different bases used in preparing the two budgets. Of this base difference, \$32,000 is in the NWPPC budget.

The difference in federal funding between the Executive and LFA current level budgets is in the NWPPC budget, due to the elimination of 0.5 FTE and the difference in bases.

Executive Budget Modifications

In addition to the \$6.3 million current level budget for the 1993 biennium, the Executive Budget contains \$10.0 million in modified budget requests for the Governor's Office. These budget modifications are listed in the following agency narrative and discussed in more detail in the program narratives.

GOVERNOR'S OFFICE

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	65.20	60.20	58.70	58.70	-1.50
Personal Services	1,915,531	2,156,663	2,146,279	2,144,822	5.38%
Operating Expenses	936,877	852,523	785,554	849,790	-8.61%
Equipment	287,473	257,796	204,559	19,381	-58.93%
Grants	97,868	0	0	0	-100.00%
Total Agency	\$3,237,749	\$3,266,982	\$3,136,392	\$3,013,993	-5.45%
<u>Fund Sources</u>					
General Fund	2,450,635	2,695,122	2,627,438	2,505,257	-.25%
State Revenue Fund	397,085	110,994	80,395	80,395	-68.35%
Federal Revenue Fund	390,029	460,866	428,559	428,341	.71%
Total Funds	\$3,237,749	\$3,266,982	\$3,136,392	\$3,013,993	-5.45%

Agency Description

The Office of the Governor was created upon acceptance of Montana into the United States in 1889 and exists under authority contained in Article VI of the Montana Constitution. The Governor has constitutional and statutory authority to administer the affairs of the State of Montana; appoint all military and civil officers of the state whose appointments are provided for by statute or the Constitution; approve or disapprove legislation; report to the legislature on the condition of the state; submit a biennial executive budget; grant reprieves and pardons; serve on various boards and commissions as provided by the Constitution and statutes; and represent the state in relations with other governments and the public.

Current Level Budget

The Governor's Office current level budget for the 1993 biennium decreases over 5 percent compared to the previous biennium, due to the termination of the Statehood Centennial Office. If that program is excluded, there is a 1 percent increase in the agency current level. A 35 percent decrease in the Air Transportation program due to final payment for the new aircraft in fiscal 1992, as well as minor decreases in the Mansion Maintenance and Lt. Governor programs, are offset by increases of up to 10 percent in the other programs. The primary reasons for increases are vacancy savings in fiscal 1990 and a significant increase in the Flathead Basin Commission budget over the fiscal 1990 level.

Executive Budget Modifications 1993 Biennium

<u>Budget Modifications</u>	<u>FTE FY92</u>	<u>FTE FY93</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
1) ARCO Clark Fork Litigation			\$2,000,000	\$8,000,000	\$10,000,000
2) Equipment Replacement			4,000		4,000
3) NASBO 1992 National Meeting			10,000		10,000
Total			\$2,014,000	\$8,000,000	\$10,014,000

EXECUTIVE OFFICE PROGRAM

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	21.50	20.50	21.50	21.50	1.00
Personal Services	680,892	750,777	793,932	794,008	10.92%
Operating Expenses	270,863	342,717	329,410	330,237	7.51%
Equipment	3,272	1,998	2,175	2,175	-17.46%
Total Program	\$955,027	\$1,095,492	\$1,125,517	\$1,126,420	9.82%
<u>Fund Sources</u>					
General Fund	944,954	995,097	1,045,122	1,046,025	7.79%
State Revenue Fund	10,073	80,395	80,395	80,395	77.73%
Federal Revenue Fund	0	20,000	0	0	-100.00%
Total Funds	\$955,027	\$1,095,492	\$1,125,517	\$1,126,420	9.82%

Program Description

The Executive Office program provides support to the Governor in overseeing and coordinating the activities of the executive branch of Montana state government. The program provides administrative, legal, press, and centralized services support for the Office of the Governor, as well as executive administration of programs with special impact on the citizens and governmental concerns of Montana. Special programs include coordination of services for senior citizens and preserving clean water in the Flathead Basin.

Current Level Budget

The Executive Office 1993 biennium budget increases nearly 10 percent compared to the previous biennium, due primarily to personal services increases and continued funding for the Flathead Basin Commission at the fiscal 1991 appropriated level, which is higher than fiscal 1990 expenditures.

Personal services increase nearly 11 percent due to vacancy savings in fiscal 1990, the fiscal 1991 pay plan increase which continues into the 1993 biennium, and the transfer of 1.0 FTE from the Office of Budget and Program Planning to this program. Operating expenses increase over fiscal 1990 levels due to:

1) actual expenditures in fiscal 1990 for the Flathead Basin Commission of \$10,073, compared to a 1993 biennium budget of \$80,395 per year; 2) increases of over \$10,000 per year for fixed costs such as audit and building rent; and 3) inflationary adjustments. These increases are partially offset by reductions in other areas in accordance with the agency's budget request. Equipment includes \$1,270 per year for replacement file cabinets, chairs, and tables, plus \$905 per year for computer software. Since the Clark Fork River Basin Project was completed in fiscal 1990, it is not included in the 1993 biennium budget. The Flathead Basin Commission, which is authorized to raise private and other funds to perform its mission, is funded at the 1991 biennium appropriation level. Prior to the 1991 biennium, the Flathead Basin Commission program operated under a statutory appropriation.

The program is funded by general fund with the exception of the Flathead Basin Commission, which is funded by private funding placed in a state special revenue account. Federal funds of \$20,000 were appropriated for fiscal 1991 for the Women in Employment Advisory Council. However, these grant funds, administered by the Department of Labor, were not awarded in the 1991 biennium.

EXECUTIVE OFFICE PROGRAM

Executive Budget Modification

Natural Resource Damage Assessment

The agency has requested \$2,000,000 general fund in the 1993 biennium for legal costs of preparing for litigation against Atlantic Richfield Corporation (ARCO). In 1983, the state filed suit under the federal Comprehensive Environment Response, Compensation and Liability Act (CERCLA) for the maximum allowed under that law (\$50 million) for damages to natural resources from the release of hazardous substances in the Clark Fork Basin. These alleged damages resulted primarily from the Anaconda Company's operations during the last century. Because ARCO purchased Anaconda Company properties, it became responsible under federal law for any natural resource damages that might have occurred. Litigation under this federal law requires the state to prepare a natural resource damage assessment, estimating the total economic damages caused by injuries to natural resources from the release of hazardous substances.

In the mid-1980's, Montana sought and received a stay in order to prepare for the case. The directors of the natural resource agencies coordinated a state effort to gather the data necessary for the suit. Staff in the Departments of Health and Environmental Sciences (DHES) and Fish, Wildlife, and Parks began preliminary work on the damage assessment. To assist in these efforts, the 1987 legislature appropriated \$200,000 of resource indemnity trust (RIT) interest to DHES for costs incurred in pursuing this suit or others that might be filed under CERCLA. With these funds, a Denver law firm was hired to assist DHES lawyers working on the suit. During the period April 1988 through April 1990, DHES paid this firm \$619,350. These costs were funded with the 1989 biennium RIT appropriation, \$370,000 from the environmental quality protection fund, and a portion of the fiscal 1990 appropriation. The 1989

legislature appropriated \$400,000 in RIT interest to DHES to continue this effort. In fiscal 1990, DHES spent \$132,214 of this appropriation.

In 1989, a federal judge lifted the stay on the case at ARCO's request, ordering the state to prepare for trial by May 1993. The Governor's Office estimates that preparation costs for the trial will be \$6 million to \$9.6 million during the next two years. A significant portion of the expense will be for scientific and economic research needed to complete the economic assessment of damages. The remainder will be used for legal fees and costs. The office is requesting \$2 million in general funds and up to \$8 million of additional spending authority from federal or private funds during the 1993 biennium for trial preparation costs. The agency has not specified a source for these private or federal funds.

While the state's original suit sought \$50 million as the maximum allowable damages, the federal law was amended in 1986 to allow much higher damages recoveries. DHES is currently contracting for a preliminary analysis of damages that might be recovered. CERCLA requires that funds received from damage assessments be used to "restore, replace, or acquire the equivalent" of the natural resources that were damaged. In addition, states may be reimbursed for a portion or all of the costs incurred in bringing the suit.

This budget modification will: 1) change the primary funding source for this effort from RIT interest to general fund; 2) transfer day-to-day responsibility for management of this case from DHES to the Governor's Office; and 3) create a large "other funds" appropriation in the agency. If this modification is approved, the legislature may want to include language in the appropriations act prohibiting use or transfer of the general fund or the other funds' spending authority for any purpose other than preparation for this case.

MANSION MAINTENANCE PROGRAM

<u>Budget Item</u>	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	1.50	1.50	1.50	1.50	.00
Personal Services	27,053	33,075	31,952	31,946	6.27%
Operating Expenses	25,136	26,356	26,697	27,456	5.17%
Equipment	<u>11,845</u>	<u>500</u>	<u>0</u>	<u>0</u>	<u>-100.00%</u>
Total Program	\$64,034	\$59,931	\$58,649	\$59,402	-4.77%
<u>Fund Sources</u>					
General Fund	<u>64,034</u>	<u>59,931</u>	<u>58,649</u>	<u>59,402</u>	<u>-4.77%</u>
Total Funds	<u>\$64,034</u>	<u>\$59,931</u>	<u>\$58,649</u>	<u>\$59,402</u>	<u>-4.77%</u>

Program Description

The Mansion Maintenance program is responsible for maintenance of the Governor's official residence.

Current Level Budget

The Mansion Maintenance current level budget decreases nearly 5 percent com-

pared to the previous biennium due primarily to one-time expenditures in fiscal 1990 for replacing linens and tableware and for carpet cleaning. Personal services increase due to the fiscal 1991 pay plan increase which continues into the 1993 biennium. Operating expenses increase due to inflationary adjustments. No equipment was requested for the 1993 biennium.

AIR TRANSPORTATION PROGRAM

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	1.00	1.00	1.00	1.00	.00
Personal Services	28,816	36,845	40,003	40,232	22.20%
Operating Expenses	77,506	80,816	84,095	110,145	22.69%
Equipment	247,687	237,432	184,645	0	-61.94%
Total Program	\$354,009	\$355,093	\$308,743	\$150,377	-35.25%
<u>Fund Sources</u>					
General Fund	354,009	355,093	308,743	150,377	-35.25%
Total Funds	\$354,009	\$355,093	\$308,743	\$150,377	-35.25%

Program Description

The Air Transportation program is responsible for providing the Governor with safe and reliable air transportation.

Current Level Budget

The Air Transportation 1993 biennium current level decreases over 35 percent compared to the previous biennium, due primarily to the payoff of three-year financing of a new aircraft in fiscal 1992. While personal services costs appear to increase over 22 percent, actual fiscal 1990 costs were \$8,600 higher than shown. These additional personal services costs were paid from a

supplemental appropriation obtained in fiscal 1990 for payment of the acquisition and debt service costs of the new aircraft. The supplemental appropriation is not reflected in fiscal 1990 costs. If total fiscal 1990 costs are included, personal services costs increase 8 percent due to the fiscal 1991 pay plan increase and workers' compensation insurance rate increases. The large increase in operating costs is due to cyclical costs of scheduled aircraft maintenance in fiscal 1993 and inflationary adjustments for higher fuel costs.

The budgeted flight hours for the 1993 biennium and actual flight hours for the Governor's aircraft for fiscal years 1988 through 1990 are shown in Table 1.

Table 1
Flight Hours - Governor's Aircraft

<u>Fiscal Year</u>	<u>Flight Hours</u>	<u>Aircraft</u>
	(Actual)	
1988	246	Duke
1989	220*	Duke
1990	216	King-Air
	(Budgeted)	
1992	220	King-Air
1993	220	King-Air

*Grounded part of year due to cracked engines.

AIR TRANSPORTATION PROGRAM

When the new aircraft was proposed to the 1989 legislature, the Governor's Office indicated that the King-Air could fly 20 percent faster than the Beechcraft Duke, reducing annual flight hours from 240 to 195.

Equipment includes payments for the new Beechcraft King-Air of \$247,071 in fiscal 1990 (including some acquisition costs) and \$184,600 each year in fiscal

years 1991 and 1992. The actual cost of the new aircraft was \$661,000 (including debt service and acquisition costs), which was \$54,000 less than the maximum \$715,000 authorized by the 1989 legislature. Since payments were higher in the first year than anticipated and lower in the remaining two years, a \$52,500 supplemental in fiscal 1990 from the fiscal 1991 appropriation was used to offset the difference.

OFFICE OF BUDGET & PROGRAM PLANNING

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	19.00	19.00	19.00	19.00	.00
Personal Services	574,226	685,488	692,755	691,852	9.91%
Operating Expenses	155,358	163,200	123,317	158,754	-11.45%
Equipment	13,550	15,736	15,609	15,076	4.78%
Total Program	\$743,134	\$864,424	\$831,681	\$865,682	5.59%
<u>Fund Sources</u>					
General Fund	743,134	864,424	831,681	865,682	5.59%
Total Funds	\$743,134	\$864,424	\$831,681	\$865,682	5.59%

Program Description

The Office of Budget and Program Planning (OBPP) assists the Governor in the preparation and administration of the state budget. In addition, OBPP prepares and monitors revenue estimates and collections, prepares and publishes fiscal notes on proposed legislation and initiatives, and acts as approving authority for operational plan changes, program transfers, and budget amendments. OBPP acts as the lead executive branch agency for compliance with the federal Single Audit Act.

Current Level Budget

The OBPP 1993 biennium current level budget increases 5.6 percent over the previous biennium, due primarily to increased personal services costs. The nearly 10 percent increase in personal services reflects a high vacancy savings rate in fiscal 1990 and the fiscal 1991 pay plan increase that continues into the 1993 biennium. In addition, the cost of the budget director's position is not included in fiscal 1990 personal services as it was paid on a contract basis with the federal government. The total number of FTE remains the same, although one position was transferred to the Executive Office and one position was transferred from the Lt. Governor's Office to this program to perform the clearinghouse function. Operating expenses decrease over 11 percent due primarily to a one-time cost of \$31,050

in fiscal 1990 for personal services done on a contract basis (the director's salary and some clerical assistance). Increases in fiscal 1991 and 1993 reflect higher session year costs for printing, postage, and computer processing. Reduced operating expenses in fiscal 1993 compared to fiscal 1991 are due to lower printing costs.

Equipment includes \$26,810 for the biennium for equipment upgrades and \$3,785 for computer software. The equipment upgrades include an increase in computer memory levels, a new printer, a back-up system, and replacement of older IBM model XT's. OBPP expended \$32,540 in fiscal 1989 and \$13,550 in fiscal 1990 for computer equipment and software. The fiscal 1991 appropriation includes \$15,736 for computer equipment.

Executive Budget Modifications

Equipment Replacement

The agency has requested \$4,000 general fund in fiscal 1992 to replace a copy machine purchased in 1984 that is experiencing excessive mechanical failures.

NASBO 1992 National Meeting

The agency has requested \$10,000 general fund in the 1993 biennium for hosting the annual meeting of the National Association of State Budget Officers in Kalispell in July 1992.

NORTHWEST REGIONAL POWER ACT

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	6.50	6.50	6.00	6.00	-.50
Personal Services	222,276	264,847	259,976	259,585	6.66%
Operating Expenses	123,299	132,988	127,583	127,756	-.37%
Equipment	<u>3,631</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>-56.81%</u>
Total Program	\$349,206	\$398,835	\$388,559	\$388,341	3.86%
<u>Fund Sources</u>					
Federal Revenue Fund	<u>349,206</u>	<u>398,835</u>	<u>388,559</u>	<u>388,341</u>	<u>3.86%</u>
Total Funds	<u>\$349,206</u>	<u>\$398,835</u>	<u>\$388,559</u>	<u>\$388,341</u>	<u>3.86%</u>

Program Description

The Pacific Northwest Electric Power and Conservation Planning Council was created in 1981, pursuant to the Pacific Northwest Electric Power Planning and Conservation Act of 1980. The goals of the council, as outlined in the act, are to develop an electrical energy plan that will provide an efficient and adequate electric power supply for the region at the lowest possible cost, to protect and rehabilitate fish and wildlife resources in the region, and to encourage public involvement in regional decisions. The council is a regional agency made up of eight members, two each from the Pacific Northwest states of Montana, Idaho, Oregon, and Washington. These members are appointed by the Governors of the four states and approved by the respective state legislatures.

Current Level Budget

The council's 1993 biennium current level budget increases nearly 4 percent compared to the previous biennium, due to increases in personal services for vacancy savings in fiscal 1990 and the fiscal 1991 pay plan increase which continues into the 1993 biennium. These increases are partially offset by the elimination of a 0.5 FTE position that has been left vacant for the entire biennium to date. Operating expenses remain at fiscal 1990 actual expenditure levels with minor increases in contract services and adjustments for rent, audit, and other fixed costs. The budget includes \$1,000 per year for replacement of office equipment.

The Northwest Power Planning Council is funded by the Bonneville Power Administration, a federal agency.

LIEUTENANT GOVERNOR

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	5.00	5.00	4.00	4.00	-1.00
Personal Services	119,894	174,092	140,068	139,685	-4.84%
Operating Expenses	33,861	39,556	34,533	34,706	-5.69%
Equipment	<u>10</u>	<u>680</u>	<u>680</u>	<u>680</u>	<u>97.10%</u>
Total Program	\$153,765	\$214,328	\$175,281	\$175,071	-4.82%
<u>Fund Sources</u>					
General Fund	<u>153,765</u>	<u>214,328</u>	<u>175,281</u>	<u>175,071</u>	<u>-4.82%</u>
Total Funds	\$153,765	\$214,328	\$175,281	\$175,071	-4.82%

Program Description

The Lieutenant Governor's Office is responsible for carrying out duties prescribed in Article VI, Section 4 of the Montana Constitution. The office serves as the liaison between state and local governments and supervises the Intergovernmental Review Clearinghouse operations. The Lieutenant Governor serves as chairperson of the Disaster Advisory Council and the Montana/Western Canadian Boundary Advisory Committee.

Current Level Budget

The Lt. Governor's Office 1993 biennium current level budget decreases nearly 5

percent compared to the 1991 biennium, due to the transfer of 1.0 FTE for the clearinghouse function to the Office of Budget and Program Planning. This decrease is partially offset by vacancy savings in fiscal 1990 and the fiscal 1991 pay plan increase. Operating expenses are continued at fiscal 1990 actual expenditure levels, with minor adjustments for increases in rent, messenger services, and other fixed costs. The reduction from fiscal 1991 levels reflects the transfer of operating costs related to the clearinghouse function. Equipment includes \$1,060 for a small copy machine, other minor office equipment, and \$300 for networking software.

CITIZENS' ADVOCATE OFFICE

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	1.50	1.50	1.50	1.50	.00
Personal Services	35,554	51,851	51,843	51,724	18.49%
Operating Expenses	<u>23,525</u>	<u>17,869</u>	<u>18,683</u>	<u>19,481</u>	<u>-7.80%</u>
Total Program	\$59,079	\$69,720	\$70,526	\$71,205	10.04%
<u>Fund Sources</u>					
General Fund	<u>59,079</u>	<u>69,720</u>	<u>70,526</u>	<u>71,205</u>	<u>10.04%</u>
Total Funds	<u>\$59,079</u>	<u>\$69,720</u>	<u>\$70,526</u>	<u>\$71,205</u>	<u>10.04%</u>

Program Description

The Citizen's Advocate Office exists to provide accessibility to state government for Montana citizens. The office provides information to citizens and acts as a referral service for public comments, suggestions, and requests for information. A toll-free number is provided to the public for this purpose.

pared to the 1991 biennium due to vacancy savings in fiscal 1990 and the fiscal 1991 pay plan increase which continues into the 1993 biennium. Operating expenses are included at the level requested by the agency. While the agency is requesting a \$12,000 supplemental in fiscal 1991 to pay anticipated increases in telephone costs, it did not include this increase in its 1993 biennium request.

Current Level Budget

The Citizen's Advocate Office current level budget increases 10 percent com-

MENTAL DISABILITIES BOARD OF VISITORS

<u>Budget Item</u>	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	4.20	4.20	4.20	4.20	.00
Personal Services	128,132	134,179	135,750	135,790	3.52%
Operating Expenses	40,928	43,931	41,236	41,255	-2.79%
Equipment	<u>3,423</u>	<u>450</u>	<u>450</u>	<u>450</u>	<u>-76.76%</u>
Total Program	\$172,483	\$178,560	\$177,436	\$177,495	1.11%
<u>Fund Sources</u>					
General Fund	131,660	136,529	137,436	137,495	2.51%
Federal Revenue Fund	<u>40,823</u>	<u>42,031</u>	<u>40,000</u>	<u>40,000</u>	<u>-3.45%</u>
Total Funds	\$172,483	\$178,560	\$177,436	\$177,495	1.11%

Program Description

The Mental Disabilities Board of Visitors, established by the legislature in 1975, is charged with reviewing patient care at Montana's community mental health centers, as well as the institutions for the mentally ill and the developmentally disabled. The board also provides legal services for the residents at those institutions. The board consists of five members appointed by the Governor. They represent, but are not limited to, consumers, doctors of medicine, and behavioral scientists. The board employs administrative and legal staff and contracts with medical professionals to carry out its responsibilities for patient representation and facility review.

Current Level Budget

The Board of Visitors' current level budget increases slightly in the 1993 biennium primarily due to the fiscal 1991 pay plan increase. Operating expenses reflect fiscal 1990 actual expenditure levels, adjusted for minor increases in rent, insurance, and other fixed costs. Equipment requested in the 1993 biennium include \$300 for a chair and bookcase and \$600 for computer software updates.

The program is funded with general fund and a federal grant to provide legal protection and advocacy for patients in Montana's institutions for the mentally ill and developmentally disabled.

STATEHOOD CENTENNIAL OFFICE

<u>Budget Item</u>	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	5.00	1.00	.00	.00	-1.00
Personal Services	98,688	25,509	0	0	-100.00%
Operating Expenses	186,401	5,090	0	0	-100.00%
Equipment	4,055	0	0	0	-100.00%
Grants	<u>97,868</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>-100.00%</u>
Total Program	\$387,012	\$30,599	\$0	\$0	-100.00%
<u>Fund Sources</u>					
State Revenue Fund	<u>387,012</u>	<u>30,599</u>	<u>0</u>	<u>0</u>	<u>-100.00%</u>
Total Funds	<u>\$387,012</u>	<u>\$30,599</u>	<u>\$0</u>	<u>\$0</u>	<u>-100.00%</u>

Program Description

The 1985 legislative session created the Montana Statehood Centennial Office and a Montana Statehood Centennial Commission to encourage the commem-

oration and celebration of Montana's 100th anniversary of statehood on November 8, 1989. The program will cease to exist at the end of fiscal 1991.

COMPARISON OF EXECUTIVE AND LFA CURRENT LEVELS

SECRETARY OF STATE'S OFFICE

<u>Budget Item</u>	Executive Current Level		LFA Current Level		Executive Over(Under) LFA
	Fiscal 1992	Fiscal 1993	Fiscal 1992	Fiscal 1993	
FTE	26.00	26.00	26.00	26.00	0.00
Personal Services	630,144	629,099	630,146	629,102	(5)
Operating Expenses	462,110	462,169	445,311	449,475	29,493
Equipment	<u>10,585</u>	<u>12,515</u>	<u>10,585</u>	<u>9,153</u>	<u>3,362</u>
Total Agency	\$1,102,839	\$1,103,783	\$1,086,042	\$1,087,730	\$32,850
<u>Fund Sources</u>					
General Fund	925,554	925,447	912,180	912,663	26,158
State Revenue Fund	<u>177,285</u>	<u>178,336</u>	<u>173,862</u>	<u>175,067</u>	<u>6,692</u>
Total Funds	\$1,102,839	\$1,103,783	\$1,086,042	\$1,087,730	\$32,850

Executive Budget Comparison

The Executive Budget exceeds the LFA current level budget by \$32,850. The Executive Budget includes \$15,588 more for travel, \$27,596 more for supplies, \$9,509 more for repairs, \$34,369 more for printing costs, and \$13,559 more for communication costs than the LFA current level. The LFA current level budget is based on fiscal 1990 actual expenditures, adjusted for cyclical costs. The Executive Budget offsets these increases in operating expenses by reducing computer processing charges by \$62,167 in fiscal 1993, as discussed below. The LFA current level budget also includes \$11,600 more for inflationary adjustments than the Executive Budget, which includes a significant deflation factor for computer processing charges.

The LFA current level includes a laser printer in fiscal 1992, while the Executive Budget includes one each year of the biennium.

Cyclical Printing Costs

The Executive Budget is higher than the LFA by \$34,369 in printing and \$32,000

in publication expenses during the biennium to fund printing costs in the election year. The LFA budget for these expenses is based on average printing and publication costs in election years 1988 and 1990.

Computer Processing Costs

The LFA budget is \$62,167 higher in computer processing charges over the biennium as the Executive Budget reduces current level computer processing costs in fiscal 1993 to fund the increased printing and publication expenses noted above. A modified budget request included in the Executive Budget restores the reduction in current level fiscal 1993 computer processing charges.

Budget Modifications

In addition to the \$2.2 million current level budget for the 1993 biennium, the Executive Budget includes a \$65,743 general fund budget modification for the Secretary of State's office. The Secretary of State will present additional budget modifications for 5.0 FTE and \$483,452 to the legislature.

SECRETARY OF STATE'S OFFICE

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	26.00	26.00	26.00	26.00	.00
Personal Services	557,790	626,745	630,146	629,102	6.31%
Operating Expenses	433,681	452,008	445,311	449,475	1.03%
Equipment	19,580	0	10,585	9,153	.81%
Debt Service	<u>13,179</u>	<u>36,242</u>	<u>0</u>	<u>0</u>	<u>-100.00%</u>
Total Agency	\$1,024,230	\$1,114,995	\$1,086,042	\$1,087,730	1.61%
<u>Fund Sources</u>					
General Fund	882,165	947,730	912,180	912,663	-.28%
State Revenue Fund	<u>142,065</u>	<u>167,265</u>	<u>173,862</u>	<u>175,067</u>	<u>12.80%</u>
Total Funds	\$1,024,230	\$1,114,995	\$1,086,042	\$1,087,730	1.61%

Agency Description

The Office of the Secretary of State is established by Article VI, Section 1, of the Montana Constitution and its duties are set forth in Section 2-15-401, MCA. The office reviews, maintains, and distributes records of business and non-profit organizations; files and maintains records of secured financial transactions; and maintains the official records of the executive branch and the acts of the legislature. As the chief election officer of the state, the Secretary of State is responsible for the application, operation, and interpretation of election laws except those pertaining to campaign finance. The office publishes the Administrative Rules of Montana and the Montana Administrative Register.

Current Level Budget

The current level budget for the 1993 biennium is only slightly larger than the 1991 biennium. Personal services costs rise due to pay plan increases in 1991 continued in the 1993 biennium and vacancy savings experienced in fiscal 1990. Increases in fixed costs and adjustments for inflation are largely

offset by the reduction in state mainframe computer processing rates. Replacement equipment budgeted in current level includes PC's and monitors, file cabinets, desks, and typewriters. Debt service is removed from current level as the PC system expected to take the place of the Uniform Commercial Code (UCC) mainframe system has been discontinued due to performance failure. Since the PC system was to be funded by savings in mainframe processing costs, the amount allocated for debt service has been shifted to current level operating costs to fund continuing system costs.

The Office of the Secretary of State collects a variety of fees for its services. Table 1 shows actual and projected collections for the current biennium compared to actual and appropriated expenditures. Most of the revenue collected by the office is deposited in the general fund. The Records Management program is funded by general fund while the Administrative Code program is funded by state special revenue. As shown in Table 1, both programs will collect fee income in excess of expenditures during the 1991 biennium, based on the following revenue estimates.

SECRETARY OF STATE'S OFFICE

Table 1
Revenue and Expenditures Office of the Secretary of State
Fiscal 1990 Actual and Fiscal 1991 Estimates

<u>Revenue Source</u>	<u>FY90 Actual</u>	<u>FY91 Estimate</u>
Revenue Deposited to the General Fund		
Domestic Corporate Licenses	\$ 395,646	\$365,000
UCC Filing Fees	306,007	280,000
Foreign Corporate Licenses	201,059	180,000
Notary Public Licenses	73,263	70,000
Assumed Business Name	46,741	40,000
Certificates and Certificate Copies	34,208	30,000
Candidate Filing Fees	23,879	100
Fax and Priority Handling	8,939	12,000
Trademark and Tradename Registration	6,170	5,000
Miscellaneous Income	<u>2,015</u>	<u>1,500</u>
Total Deposits to the General Fund	<u>\$1,097,927</u>	<u>\$983,600</u>
Actual and Budgeted Expenditures	\$ 882,165	\$947,730
Revenue Collections Over Expenditures	\$ 215,762	\$ 35,870
State Special Revenue Collections		
Administrative Rules	\$185,360	\$170,000
Reapportionment Maps	<u>568</u>	<u>500</u>
Total State Special Revenue	<u>\$185,928</u>	<u>\$170,500</u>
Actual and Budgeted Expenditures	\$142,065	\$167,265
Revenue Collections Over Expenditures	\$ 48,863	\$ 3,235

Executive Budget Modification 1993 Biennium

<u>Budget Modification</u>	<u>FTE FY92</u>	<u>FTE FY93</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
1) Data Processing Costs	0.0	0.0	\$65,743	\$0	\$65,743

SECRETARY OF STATE'S OFFICE

In addition to the budget modification included in the Executive Budget, the Secretary of State is requesting the

following budget modifications. Additional information on these budget modifications is contained in the program narratives.

Elected Official Budget Modifications

1993 Biennium

<u>Budget Modifications</u>	<u>FTE FY92</u>	<u>FTE FY93</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
1) Fireproof File Cabinets			\$ 45,000	\$ 0	\$ 45,000
2) Additional FTE	2.0	2.0	57,377	20,637	78,014
3) Corporate Document Microfilming	<u>3.0</u>	<u>3.0</u>	<u>360,438</u>	<u>0</u>	<u>360,438</u>
Total	5.0	5.0	\$462,815	\$20,637	\$483,452

RECORDS MANAGEMENT PROGRAM

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	22.50	22.50	22.50	22.50	.00
Personal Services	489,432	533,919	533,018	532,120	4.08%
Operating Expenses	362,915	378,887	370,062	372,982	.17%
Equipment	18,616	0	9,100	7,561	-10.50%
Debt Service	<u>11,202</u>	<u>34,924</u>	<u>0</u>	<u>0</u>	<u>-100.00%</u>
Total Program	\$882,165	\$947,730	\$912,180	\$912,663	-.28%
<u>Fund Sources</u>					
General Fund	<u>882,165</u>	<u>947,730</u>	<u>912,180</u>	<u>912,663</u>	<u>-.28%</u>
Total Funds	<u>\$882,165</u>	<u>\$947,730</u>	<u>\$912,180</u>	<u>\$912,663</u>	<u>-.28%</u>

Program Description

The Records Management program is the custodian of all official acts of the executive and legislative branches of Montana State government. In addition, the program, responsible for insuring uniform application of election laws, assists local officials in the operation of all elections; publishes and maintains official canvass results; and publishes and disseminates voter information. The program also administers the Agricultural Lien program, a centralized filing and access system for security interests covering agricultural products and property.

Current Level Budget

The 1993 biennium current level budget for the program remains near the same level as that for the 1991 biennium. The most noticeable differences are for personal services and debt service expenditures.

In fiscal 1990, the program experienced a vacancy savings rate of 4.5 percent. Personal services costs increase because of vacancy savings realized in fiscal 1990 and full implementation of the 1991 biennium pay plan continued in the 1993 biennium. Current level personal services decrease slightly between fiscal 1991 and fiscal 1992 due to the reallocation of salaries for 0.5 FTE

between the Records Management and Administrative Code programs.

The current level budget for the 1993 biennium does not include debt service as the UCC personal computer system scheduled for installation during the 1991 biennium was abandoned due to nonperformance and the lease-purchase contract for the computer equipment terminals was terminated (see "UCC System" below).

Operating costs increase slightly over the biennium as deflation in mainframe processing costs offsets most of the increase in rent, audit fees, messenger services, and inflationary adjustments. There is a cyclical cost adjustment which adds about \$11,500 for printing in the second year of the biennium to reflect election year publication costs. The amount was calculated from the average of printing costs in election years 1988 and 1990.

Equipment in the current level budget includes two replacement personal computers and monitors, a typewriter, a desk, and filing cabinets each year of the biennium. A laser printer is included in fiscal 1992.

This program is supported by general fund. However, the agency charges fees for services provided by this program which are deposited to the general fund (see Table 1). Fee collections totalled \$1,097,927 in fiscal 1990. If the estimate of fiscal 1991 income is

RECORDS MANAGEMENT PROGRAM

accurate, the agency will collect at least \$251,000 more than it expends in this program during the 1991 biennium.

Issues

UCC System

The Secretary of State is responsible for registering and tracking corporate debt and lien filings required under the UCC statutes (Section 30-9-401, MCA) and providing UCC information to such requestors as banks, creditors, and attorneys. The agency has an automated filing and tracking system, housed on the state mainframe computer. The 1987 legislature authorized the Secretary of State to contract for the development and installation of a PC system to track UCC filings as the mainframe system was considered to be unreliable. Development and equipment costs were to be debt financed through savings in mainframe processing costs.

In late fiscal 1989, the Secretary of State sued the contractor hired to develop the PC system as it was unable to function after more than a year of development work. The suit was successful. The office received a settlement and stopped development of the PC system, continuing to use the existing UCC mainframe system.

The Executive Budget includes, at the agency's request, \$3,085 to hire a consultant to prepare bid specifications to develop and implement a new UCC filing system. As described in the request, the agency would then present a plan to replace the current UCC system and funding request to the 1993 legislature. The system replacement might be implemented in fiscal 1994 or 1995. During that time, the current system would continue in use. Another option would be to request the Department of Administration and the Secretary of State to develop a cost estimate and timetable for development of a new or improved system for consideration by the 1991 legislature.

Since the fees for corporate filing and document duplication are set by rule,

the Secretary of State could increase these fees to offset the general fund cost of hiring a consultant or developing a new system.

Duplicate Copies and Safe Storage of Records

The Secretary of State is required to maintain two copies of all records or papers required to be deposited in his office by statute. One copy must be placed in a fireproof storage area and a second copy must be retained to prepare copies of such records (Section 2-6-111, MCA). Currently the office maintains only one copy of many records, including corporate documents that are stored in open shelving stacked 14 feet high. In the 1970's, documents suffered water damage from a plumbing leak in the ceiling. The office has limited space available for storage of additional documents. In addition, copying of original documents, some of which are onion skin paper, has caused many files to deteriorate.

The agency will present two budget requests to copy and store corporate records. The agency is asking for \$45,000 in general fund to purchase fireproof file cabinets for document storage. The agency will also request 3.0 FTE, a microfilm camera, additional microfilm readers, and \$360,438 in general fund to begin microfilming corporate records. In 1987, the agency estimated that there were about 7.7 million pages to be filmed and jacketed, with about 100,000 pages of new documents received per year. By processing current filings first, about 2 million pages per year could be filmed and processed.

Executive Budget Modification

Data Processing

This program is requesting an increase in general fund of \$7,936 in fiscal 1992 and \$57,807 in fiscal 1993 to operate the UCC system on the state mainframe computer and to publish voter information. The 1987 legislature appropriated funds to install a

RECORDS MANAGEMENT PROGRAM

contracted computer system that would have been less costly than the mainframe system (see "Issue" discussion). However, the contracted system could not perform the necessary functions, and the office has continued to operate the existing system on the mainframe computer. The cost is higher the second year of the biennium as the office contends that there is not enough authority in the current level budget to both run the UCC system and to fund cyclical election year printing costs.

Elected Official Budget Modifications

Additional FTE

The agency is requesting 1.5 FTE in this program--a full time cashier and a half-time administrative assistant and \$57,377 in general fund over the biennium. The FTE are necessary to pro-

cess fee transactions in a timely manner and to better manage the filing and preparation of corporate annual reports. Fiscal 1990 expenditures for overtime and differential pay were \$2,240. However, the agency did not request budget authority for such expenditures in the 1993 biennium.

Microfilming Corporate Documents

The agency is requesting \$360,438 of general fund over the biennium to hire 3.0 FTE, purchase microfilming equipment, and begin making duplicate copies of corporate documents.

Fireproof File Cabinet

The Secretary of State is requesting \$45,000 to purchase fireproof cabinets for document storage.

ADMINISTRATIVE CODE PROGRAM

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	3.50	3.50	3.50	3.50	.00
Personal Services	68,358	92,826	97,128	96,982	20.43%
Operating Expenses	70,766	73,121	75,249	76,493	5.46%
Equipment	964	0	1,485	1,592	219.19%
Debt Service	1,977	1,318	0	0	-100.00%
Total Program	\$142,065	\$167,265	\$173,862	\$175,067	12.80%
<u>Fund Sources</u>					
State Revenue Fund	142,065	167,265	173,862	175,067	12.80%
Total Funds	\$142,065	\$167,265	\$173,862	\$175,067	12.80%

Program Description

The Administrative Code program executes the duties required under the Montana Administrative Procedures Act (Title 2, Chapter 4, MCA). These duties include filing, indexing, organizing for publication, and distributing the administrative rules adopted by state agencies in the Administrative Rules of Montana and the Montana Administrative Register.

crease are upgrades for two positions and vacancy savings in fiscal 1990.

Operating costs rise due to increased audit costs, rent, and inflation, especially in postage. Equipment includes replacement of two PC's and monitors, file cabinets, and typewriters. Debt service costs are not budgeted for the 1993 biennium as development of the computer system that was to be installed in fiscal 1989 was discontinued.

Current Level Budget

The current level budget is 12.8 percent greater in the 1993 biennium than the 1991 biennium. The most significant increase is in personal services where 0.5 FTE were reorganized between the Records Management and Administrative Code programs. The positions transferred to the Administrative Code program receive about \$3,800 more annually than the FTE transferred out of the program. Other reasons for the in-

The program is funded by revenues from the publication of rules and subscriptions to the ARM. As shown in Table 1 (in the agency narrative), revenues are expected to offset expenditures in the 1991 biennium.

Table 2 shows the projected balance of Administrative Rules account. At the end of fiscal 1993, the account will have an estimated ending balance of about \$67,000.

Table 2
Estimated Balance Administrative Rules Account
Fiscal 1990 to Fiscal 1993

<u>Expenditures and Revenue</u>	<u>FY90</u>	<u>FY91</u>	<u>FY92</u>	<u>FY93</u>
Balance Forward	\$(15,067)	\$ 28,688	\$ 45,683	\$ 56,914
Revenues	185,928	184,260	185,094	185,094
Expenditures	142,058	167,265	173,862	175,067
Adjustments	(115)			
Balance	\$ 28,688	\$ 45,683	\$ 56,914	\$ 66,941

ADMINISTRATIVE CODE PROGRAM

Elected Official Budget Modification

The agency is requesting an additional 0.5 FTE administrative aide and \$20,637 of state special revenue funds over the biennium to alleviate overtime expenditures and to provide additional

staff to review agency rules for compliance with the Montana Administrative Procedures Act. The additional staff cost would reduce the projected ending fund balance in the ARM account to about \$46,300 at the end of fiscal 1993.

COMPARISON OF EXECUTIVE AND LFA CURRENT LEVELS

COMMISSIONER OF POLITICAL PRACTICES

Budget Item	Executive Current Level		LFA Current Level		Executive Over(Under) LFA
	Fiscal 1992	Fiscal 1993	Fiscal 1992	Fiscal 1993	
FTE	3.00	3.00	3.00	3.00	0.00
Personal Services	85,436	85,242	85,436	85,242	0
Operating Expenses	25,451	27,496	22,878	24,601	5,468
Equipment	<u>1,608</u>	<u>2,108</u>	<u>1,608</u>	<u>2,108</u>	<u>0</u>
Total Agency	\$112,495	\$114,846	\$109,922	\$111,951	\$5,468
<u>Fund Sources</u>					
General Fund	<u>112,495</u>	<u>114,846</u>	<u>109,922</u>	<u>111,951</u>	<u>5,468</u>
Total Funds	<u>\$112,495</u>	<u>\$114,846</u>	<u>\$109,922</u>	<u>\$111,951</u>	<u>\$5,468</u>

Executive Budget Comparison

The Executive Budget is higher than the LFA current level budget by \$5,468, which is entirely in operating expenses. This difference is due to the Executive Budget using the fiscal 1991 as a base, while the LFA current level is based on fiscal 1990 actual expenditures.

Executive Budget Modification

In addition to the \$227,341 current level budget for the 1993 biennium, the Executive Budget contains a modified budget request of \$1,700 for staff termination pay. This budget modification is discussed in the agency narrative.

COMMISSIONER OF POLITICAL PRACTICES

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	3.00	3.00	3.00	3.00	.00
Personal Services	81,049	85,062	85,436	85,242	2.75%
Operating Expenses	23,378	27,022	22,878	24,601	-5.80%
Equipment	<u>1,687</u>	<u>0</u>	<u>1,608</u>	<u>2,108</u>	<u>120.27%</u>
Total Agency	\$106,114	\$112,084	\$109,922	\$111,951	1.68%
<u>Fund Sources</u>					
General Fund	<u>106,114</u>	<u>112,084</u>	<u>109,922</u>	<u>111,951</u>	<u>1.68%</u>
Total Funds	\$106,114	\$112,084	\$109,922	\$111,951	1.68%

Agency Description

The Office of the Commissioner of Political Practices was created in 1975 to monitor disclosures of financial contributions to and expenditures made by Montana political committees and candidates and to oversee and enforce the campaign practices law in Title 13, Chapters 35 through 37, MCA. The responsibilities of the office were expanded in 1980 by Initiative 85 to include the registration of lobbyists, the filing of their principals' financial reports, and the disclosure of elected officials' business and ownership interests.

payments of \$1,608 per year for a copy machine purchased in fiscal 1991 and \$500 in fiscal 1993 for new software.

Language in the 1991 biennium appropriations bill required the agency to charge a fee for the Summary of Contributions/Expenditures for Candidates/Committees report sufficient to recover the costs of printing and distributing the report. The cost of publishing the 1989 report was \$4,500. Fiscal year 1990 revenue from sales of this report was \$2,475. The agency projects full costs will be recovered if all reports are sold.

Funding for the agency is from the general fund.

Current Level Budget

The agency's 1993 biennium current level increases 1.7 percent over the previous biennium, primarily due to the fiscal 1991 pay plan increase which continues in the 1993 biennium. Operating costs decrease due to a number of one-time costs in fiscal 1990 that are not included in the 1993 biennium budget. Operating costs are higher in the second year of the biennium due to cyclical costs of publishing election reports. Equipment costs include lease-purchase

Executive Budget Modification

Termination Pay

The agency has requested \$1,150 in fiscal 1992 and \$550 in fiscal 1993 from the general fund for termination pay in anticipation of the turnover of two personnel in the Office of the Commissioner of Political Practices. Termination pay includes accrued vacation pay and sick leave lump sum payments.

COMPARISON OF EXECUTIVE AND LFA CURRENT LEVELS

STATE AUDITOR'S OFFICE

Budget Item	Executive Current Level		LFA Current Level		Executive Over(Under) LFA
	Fiscal 1992	Fiscal 1993	Fiscal 1992	Fiscal 1993	
FTE	67.00	67.00	63.00	63.00	4.00
Personal Services	1,831,842	1,830,393	1,717,733	1,716,475	228,027
Operating Expenses	<u>847,807</u>	<u>832,622</u>	<u>948,501</u>	<u>928,630</u>	<u>(196,702)</u>
Total Agency	\$2,679,649	\$2,663,015	\$2,666,234	\$2,645,105	\$31,325
<u>Fund Sources</u>					
General Fund	2,233,158	2,215,373	2,293,734	2,282,605	(127,808)
State Revenue Fund	360,348	360,355	372,500	362,500	(14,297)
Proprietary Fund	<u>86,143</u>	<u>87,287</u>	<u>0</u>	<u>0</u>	<u>173,430</u>
Total Funds	\$2,679,649	\$2,663,015	\$2,666,234	\$2,645,105	\$31,325

Executive Budget Comparison

The Executive Budget is \$228,027 higher than the LFA current level in personal services, but this difference is nearly offset in operating expenses, where the Executive Budget is \$196,702 lower than the LFA current level. The net difference between the two budgets is only \$31,325 for the 1993 biennium.

The most significant differences are discussed below as "Issues," including the difference in personal services costs and a net operating expenses reduction of \$143,330 in the Executive Budget. Operating expenses included in the Executive Budget but not in LFA current level are: 1) payroll fees of \$4,962 included in the Insurance and Securities Division budgets (which are supported entirely by general fund and should not be charged payroll fees); 2) a \$6,381 higher audit fee due to the inclusion of a modified budget request in the calculation of the audit fee schedule for the Legislative Auditor's Office; 3) \$2,100 of telephone modification charges in the Insurance Division that LFA current level removed as a one-time expense; and 4) \$13,500 due to the different bases used in preparing the two budgets. Additionally, LFA current level applies \$50,900 more in inflation adjustments than the Executive Budget.

The Executive Budget is \$127,808 lower in general fund than LFA current level for the following reasons:

1) the Executive Budget transfers \$173,430 from general fund to a proprietary fund for the operation of the Bad Debts Collection program, as discussed below in the "Issue" section. The LFA current level retains general fund to support the Bad Debts program;

2) the differences in personal services and operating expenses discussed in this section are all general fund supported, resulting in the Executive Budget including \$31,325 more in general fund; and

3) the Executive Budget includes \$14,297 more general fund support for the Central Payroll Division than LFA current level, which uses a fund balance carryover in the Central Payroll state special revenue fund.

Issues

FTE Reductions

The Executive Budget eliminates 0.5 FTE, while LFA current level eliminates 4.5 FTE. The 0.5 FTE not included in the Executive Budget is in the Central Payroll Division, removed as a savings from conversion to an on-line Payroll/Position/Personnel (P/P/P) system in the 1991 biennium. The LFA

STATE AUDITORS OFFICE

current level budget eliminated that position and an additional payroll clerk position, as the agency stated when it requested funding for the project that up to 1.75 FTE could be eliminated due to P/P/P on-line conversion. In addition, the LFA current level budget eliminated 3.0 FTE in the Insurance Division, at a savings of \$190,503. The positions were 3.0 of 5.0 FTE approved by the 1989 legislature to expand insurance regulation, but the positions were vacant nearly all of fiscal 1990 and had not been permanently filled at the end of November 1990. The vacancy savings achieved in these and other positions provided part of the funding for pay raises in excess of the state pay plan granted to the State Auditor's personal staff.

Central Payroll Data Processing Charges

The Executive Budget includes increases of \$101,558 over fiscal 1990 actual expenditures for data processing charges by the Department of Administration, including computer processing charges, data network service, information center service, and operational support. The LFA current level budget for these items is at fiscal 1990 base levels. The agency states that the data processing appropriation is insufficient and has submitted a supplemental request for increases in fiscal 1991 costs. However, fiscal 1990 costs in these categories appeared to reflect a normal budget year.

Warrant Writing System Processing Costs

The State Auditor's Office installed a new warrant writing system which became operational at the beginning of the 1991 biennium. In its first year of operation, costs exceeded the appropriation by nearly 100 percent in data processing costs, postage, supplies, and other costs. The agency received a general fund supplemental of \$85,967 in fiscal 1990 for these increased costs.

Since these are ongoing costs of operating the system, the LFA current level includes the warrant system costs (data processing, postage, and supplies) at fiscal 1990 actual expenditure levels, including the supplemental transfer from fiscal 1991. The Executive Budget includes \$269,364 less for these costs in its current level, but includes \$193,000 for this purpose in a budget modification (which is discussed in the program narrative). Despite this budget modification, the Executive Budget includes \$76,364 less for warrant system costs than fiscal 1990 actual expenditures.

Bad Debts Collection Funding Switch

The Executive Budget changed funding for the Bad Debts Collection program from general fund to a proprietary fund operation. The program, which provides a collection service for state agencies for bad debts, would be funded under the Executive Budget plan by retaining a percentage of bad debts collected for agencies. LFA current level continues the current general fund support.

Budget Modifications

In addition to the \$5.3 million current level budget for the 1993 biennium, the Executive Budget contains \$483,732 general fund and 2.0 FTE in modified budget requests for the State Auditor's Office. These budget modifications are listed in the following agency narrative and discussed in more detail in the program narratives.

The Executive Budget does not include an additional 15 budget modifications for 2.0 FTE and \$566,583 (of which \$443,773 is general fund) requested by the State Auditor. Since the State Auditor plans to present these budget modifications to the legislature, details on the modifications are provided in the following program narratives.

STATE AUDITOR'S OFFICE

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	66.00	67.50	63.00	63.00	-4.50
Personal Services	1,531,601	1,785,485	1,717,733	1,716,475	3.53%
Operating Expenses	879,291	812,530	948,501	928,630	10.95%
Equipment	941	1,000	0	0	-100.00%
Total Agency	\$2,411,833	\$2,599,015	\$2,666,234	\$2,645,105	6.00%
<u>Fund Sources</u>					
General Fund	2,025,629	2,192,398	2,293,734	2,282,605	8.49%
State Revenue Fund	386,204	406,617	372,500	362,500	-7.29%
Total Funds	\$2,411,833	\$2,599,015	\$2,666,234	\$2,645,105	6.00%

Agency Description

The Office of the State Auditor, established by Article VI, Section 1 of the Montana Constitution, has statutory responsibility to superintend the fiscal duties of the state, suggest plans for improvement and management of the public revenues, and keep an account of all state warrants. The auditor is both ex-officio commissioner of insurance and ex-officio commissioner of securities. The auditor is charged with the duty of licensing and regulating insurance companies and agents within the state. The auditor is also assigned the responsibility of regulating and registering issuers, securities salesmen, broker-dealers, investment advisors, and investment advisor representatives. The auditor is director of the state employee payroll system and administers the bad debt collection function for state funds.

the volume of warrants processed, particularly for the Workers' Compensation Division, has driven up processing and postage charges.

Personal services increase 3.5 percent due to significant vacancy savings in fiscal 1990, the fiscal 1991 pay plan increase, and additional pay raises of \$31,800 for the State Auditor's personal staff continuing into the 1993 biennium. These increases more than offset the elimination of 4.5 FTE, including 1.5 FTE in the Central Payroll Division and 3.0 FTE in the Insurance Division. Operating expenses increase due to the warrant writing system processing cost increases and minor increases in rent, insurance, and other fixed costs. These increases are partially offset by anticipated decreases in the rates charged by the Department of Administration for computer processing and reductions in systems development costs.

Current Level Budget

The agency's 1993 biennium current level budget increases 6 percent compared to the 1991 biennium, due primarily to a near doubling of the appropriation for warrant writing system computer processing costs in the Fiscal Management and Control Division. The new warrant system was activated at the beginning of fiscal 1990, with no previous history of operating costs. In addition, an unanticipated increase in

The agency is funded by general fund except for the Central Payroll Division, which receives approximately 30 percent of its funds from a state special revenue fund generated by service charges against non-general fund programs for the central payroll function. The Insurance and Securities Divisions were funded by state special revenue in the 1989 biennium, but those accounts were de-earmarked by Senate Bill 78 in the 1989 session.

STATE AUDITOR'S OFFICE

Issue

Exempt Position Salary Increases - 1991 Biennium

The 1989 legislature appropriated funds for salary increases averaging 2.5 percent per year for the 1991 biennium for both classified and exempt positions. The State Auditor authorized pay increases of 4 percent to 25 percent per year for 10 of 15 exempt positions in the agency. The average increase for those ten positions was 16.25 percent for the biennium. These increases were funded within the existing appropriation

by using vacancy savings. The total increase over appropriated levels for the 1991 biennium will be over \$50,000 for all exempt positions.

The salary level included in both the Executive Budget and LFA current level funds the exempt positions at fiscal 1990 actual salary levels plus the fiscal 1991 2.5 percent pay plan increase. If the budget is approved at this level, the agency's personal services will be increased by \$31,800 in salary increases awarded by the agency over legislative 1991 biennium appropriated levels.

Executive Budget Modifications 1993 Biennium

<u>Budget Modifications</u>	<u>FTE FY92</u>	<u>FTE FY93</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
1) Computer System Replacement			\$150,000		\$150,000
2) General Office Remodeling			15,000		15,000
3) Computer Systems Analyst	1.0	1.0	67,150		67,150
4) Medicare Compliance Spec.	1.0	1.0	58,582		58,582
5) Warrant System Processing	—	—	193,000	—	193,000
Total	2.0	2.0	\$483,732	\$0	\$483,732

The Executive Budget includes the budget modifications listed above.

In late November 1990, the State Auditor's Office indicated that it

planned to present the following additional budget modification requests to the 1991 legislature.

STATE AUDITOR'S OFFICE

Elected Official Budget Modifications

1993 Biennium

<u>Budget Modifications</u>	<u>FTE</u> <u>FY92</u>	<u>FTE</u> <u>FY93</u>	<u>General</u> <u>Fund</u>	<u>Other</u> <u>Funds</u>	<u>Total</u>
1) Executive Staff Pay Raises			\$ 34,110		\$ 34,110
2) Warrant System Added Costs			130,869		130,869
3) Payroll System Processing			35,758		35,758
4) Warrant System Postage			124,805		124,805
5) Office Remodeling Addition			10,000		10,000
6) Training/Education Program			12,000		12,000
7) Bad Debts System Software			4,250		4,250
8) Securities Division Travel			2,850		2,850
9) Nat'l Association Dues			5,000		5,000
10) Securities Div. Equipment			4,300		4,300
11) Warrant System Equipment			44,127		44,127
12) Office Equipment			6,915		6,915
13) Eqpt. Maintenance Contracts			8,680		8,680
14) Bad Debts Program Expansion	2.0	2.0		\$122,810	122,810
15) Supplies for Warrant System	—	—	20,109	—	20,109
Total	2.0	2.0	\$443,773	\$122,810	\$566,583

Exempt Position Salary Increases - 1993 Biennium

The State Auditor has requested \$34,110 general fund in the 1993 biennium for pay increases for personal staff. This would provide 7.5 percent pay increases for exempt positions for the 1993

biennium, as the State Auditor does not feel the current salaries are competitive. The majority of the personal staff also received pay increases of over 15 percent in the 1991 biennium, as discussed above.

CENTRAL MANAGEMENT

<u>Budget Item</u>	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	8.00	8.00	8.00	8.00	.00
Personal Services	206,888	218,793	221,425	221,478	4.05%
Operating Expenses	18,890	17,608	26,686	26,673	46.20%
Equipment	102	0	0	0	-100.00%
Total Program	\$225,880	\$236,401	\$248,111	\$248,151	7.35%
<u>Fund Sources</u>					
General Fund	225,880	236,401	248,111	248,151	7.35%
Total Funds	\$225,880	\$236,401	\$248,111	\$248,151	7.35%

Program Description

The Central Administration Division is responsible for the administrative, budgeting, personnel, and accounting functions for the State Auditor's Office. It also has an audit and review function to investigate complaints and to monitor state funds.

Current Level Budget

The division's 1993 biennium current level is 7.4 percent higher than in the 1991 biennium. Personal services increase due to continuation of the fiscal 1991 pay plan increase and additional pay raises of \$6,600 for the State Auditor's personal staff continuing into the 1993 biennium. Operating expenses are higher primarily due to increases in fixed costs, including audit fees and office rent.

Executive Budget Modifications

Computer System Replacement

The Executive Budget includes \$97,930 in fiscal 1992 and \$52,070 in fiscal 1993 from the general fund for the second phase of replacing the current agency computer network system. The original system, installed in 1986, reached capacity within two years, is expensive to maintain and upgrade, and is not compatible with other state agency systems. The agency was appropriated \$40,000 in the 1991 biennium for the

first phase of the conversion to an IBM PC network system. The funds requested in this budget modification would provide for full conversion to an IBM network. The total cost of the system over a three-year period would be \$190,000, compared to an estimate of \$134,200 when the agency requested the first phase during the 1989 legislature. The Executive Budget includes \$12,500 less than the original amount requested by the State Auditor.

Office Remodeling

The Executive Budget includes \$15,000 general fund in fiscal 1992 for remodeling the State Auditor's office. The remodeling is requested to accommodate the 8.0 FTE added to the auditor's staff in the 1991 biennium, including 3.0 FTE from the Bad Debts function transferred from the Department of Revenue and 5.0 FTE additional insurance regulation positions authorized by the 1989 legislature. The new employees must be integrated into existing workspace since additional workspace is not available. The funds will be used to install both semi-permanent and movable partitions, move storage and other items, remove existing partitions, and install phone jacks and other necessary wiring. The Executive Budget includes \$10,000 less than the original request by the State Auditor.

Systems Analyst

The Executive Budget includes \$33,805 in fiscal 1992 and \$33,345 in fiscal 1993

CENTRAL MANAGEMENT

from the general fund to add a grade 16 systems analyst position. This position would do the programming for and manage the office-wide computer system, including technical maintenance work. Additional program applications could be done in-house, reducing the need to use outside contract work. The agency states that this position would eliminate the need for high cost maintenance contracts. While the agency states that part of the cost of the new position could be offset by cost savings, it has not reduced its current level budget request.

Elected Official Budget Modifications

Office Remodeling Additional Funds

The Executive Budget included \$15,000 for office remodelling to accommodate

additional staff, as discussed above. The State Auditor has requested an additional \$10,000 to move 6 lektrievers and all file cabinets to a central file area, which would provide an additional 600 square feet of office space.

Office Training and Education Program

The State Auditor requests \$12,000 general fund to implement a formal training program for employees based on performance evaluations and on the need for continuing education. The funds would also be used for additional dues and subscriptions for national associations.

Office Equipment

The State Auditor requests \$6,915 general fund, including \$4,245 for replacement desk and visitor chairs and \$2,670 for new carpet.

STATE PAYROLL

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	9.50	9.50	8.00	8.00	-1.50
Personal Services	234,667	244,606	225,722	225,546	-5.84%
Operating Expenses	363,372	312,718	312,007	300,319	-9.43%
Equipment	440	0	0	0	-100.00%
Total Program	\$598,479	\$557,324	\$537,729	\$525,865	-7.98%
<u>Fund Sources</u>					
General Fund	212,275	150,707	165,229	163,365	-9.47%
State Revenue Fund	386,204	406,617	372,500	362,500	-7.29%
Total Funds	\$598,479	\$557,324	\$537,729	\$525,865	-7.98%

Program Description

The State Payroll Division is responsible for preparing the state payroll for state agencies on a biweekly basis. In addition, the division is responsible for maintaining the data base for the state Payroll/Personnel/Position Control (P/P/P) System, which is an integrated data base system incorporating all the requirements and data elements of three systems: payroll, personnel, and position control. The State Payroll Division was a part of the Audit Division until reorganized as a separate division in fiscal 1990.

staff of \$5,700 above the pay plan authorization.

Operating expenses decrease over 9 percent due to: 1) a reduction in rent and other fixed cost allocations; 2) a reduction in other expenses in accordance with the agency's budget request, including a \$25,000 reduction in systems development costs below fiscal 1990 levels; and 3) an anticipated decrease in the Department of Administration computer processing and information services charges, resulting in reductions of \$16,700 and \$28,600 below fiscal 1990 levels. No equipment was requested in the current level budget.

Current Level Budget

The State Payroll Division's 1993 biennium current level decreases nearly 8 percent as compared to the 1991 biennium, primarily due to economies achieved by the conversion to the P/P/P on-line system and a reduction in computer processing rates charged by the Department of Administration. Personal services decrease due to the elimination of 1.5 FTE payroll clerks as a result of the P/P/P on-line conversion. When the agency requested funding for this conversion, it estimated that up to 1.75 FTE could be eliminated upon its completion. The reduction in personal services is partially offset by the fiscal 1991 pay plan increase and pay raises to the State Auditor's personal

State special revenue funds are derived from payroll service fees charged to agency non-general fund operations. There is a direct appropriation from the general fund for payroll services to general funded employees. State special revenue decreases due to economies attained by conversion to P/P/P on-line, and an overall reduction in program costs.

Issues

State Special Revenue Account Reversions

The Central Payroll Division is funded from both the general fund and state special revenue funds. Section 17-2-108, MCA, states that when an agency is funded by both general and non-general

STATE PAYROLL

funds, it "shall apply expenditures against nongeneral fund money wherever possible before using general fund appropriations." In fiscal 1989 and 1990, the State Auditor reverted over \$25,000 of state special revenue fund appropriations, even though sufficient state revenue funds existed in both years to make all expenditures, allowing the reversion of general fund instead. LFA current level uses additional state special revenue funds of \$12,500 in fiscal 1992 and \$2,500 in fiscal 1993 to utilize existing state special revenue funds and reduce general fund costs.

Incomplete Fiscal 1990 Special Projects

The 1989 legislature appropriated \$25,000 general fund in fiscal 1990 to the State Auditor to implement the provisions of House Bill 26, which requires the State Auditor to include the vocational-technical centers and the units of the university system under the state central payroll system during the 1991 biennium. In addition, the 1989 legislature authorized \$204,000 general fund in fiscal 1990 for conversion of the P/P/P System to an on-line system. Neither of these projects had been completed at the end of fiscal 1990. Of the \$229,000 appropriated for these projects, only \$74,663 had been expended by the end of fiscal 1990, with the remaining \$154,337 accrued at year end. The accrual does not appear to have been a valid fiscal 1990 accrual, since all payments to date against the accrual have been for fiscal 1991 services.

Uniform University Payroll System

In House Bill 26, the 1989 legislature appropriated \$25,000 general fund to the State Auditor and \$625,000 to the Department of Administration to conduct a study and to provide for the inclusion of each university unit on the uniform P/P/P system. When the study was completed in fiscal 1990, the State Auditor's office had spent only \$220 of the \$25,000 appropriation. The remainder of the appropriation was therefore available for bringing the six university units onto the uniform P/P/P system. However, the steering committee overseeing the project determined that

several university units did not need to be included in the state central payroll system and has authorized creation of a separate reporting system--the Regents Employees Reporting System (RERS). The steering committee also recommended that the Commissioner of Higher Education, rather than the State Auditor, maintain and operate RERS. The Executive Budget funds 1993 biennial operating costs for the system in the Commissioner's Office.

The vocational-technical centers converted to the state P/P/P system on July 1, 1989. The only two university units still considering conversion to the state central P/P/P system are Northern Montana College and the Montana College of Mineral Science and Technology. If these units elect to report data to RERS, the State Auditor's office should have no additional expenditures from this appropriation.

The legislature may want to consider whether all or part of the remaining \$24,780 of fiscal 1990 university payroll project funds should be reverted to the general fund.

P/P/P On-line Conversion

The P/P/P on-line conversion project was designed to allow on-line processing of the P/P/P forms and health insurance information by July 1, 1990. Only 37 percent of the appropriation had been expended at the end of fiscal 1990, and the agency accrued the remaining \$129,557 of the fiscal 1990 appropriation. In the first four months of fiscal 1991, the agency charged \$22,273 against the accrual, but it was entirely for services provided by Information Services Division in fiscal 1991. Over \$100,000 remained accrued in November 1990. The legislature may want to determine whether all of the remaining funds will be needed to complete the project or whether all or part of the remaining fiscal 1990 funds should be reverted to the general fund.

STATE PAYROLL

Elected Official Budget Modification

Payroll System Processing

The State Auditor requests \$35,758 general fund for increased computer processing and services support of the central payroll system by the Department of Administration. The agency charged over \$10,000 of fiscal 1990 computer

processing charges to the fiscal 1991 appropriation and has submitted a fiscal 1991 supplemental request of \$51,054 to the 1991 legislature for these services. Computer services provided by the Department of Administration in fiscal 1990, which are being used as a base for this request, included over \$50,000 of systems development charges, which may not be recurring costs.

INSURANCE

<u>Budget Item</u>	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	30.00	30.00	27.00	27.00	-3.00
Personal Services	655,736	816,098	761,330	760,498	3.40%
Operating Expenses	<u>148,514</u>	<u>140,913</u>	<u>143,474</u>	<u>144,241</u>	<u>- .59%</u>
Total Program	\$804,250	\$957,011	\$904,804	\$904,739	2.74%
<u>Fund Sources</u>					
General Fund	<u>804,250</u>	<u>957,011</u>	<u>904,804</u>	<u>904,739</u>	<u>2.74%</u>
Total Funds	<u>\$804,250</u>	<u>\$957,011</u>	<u>\$904,804</u>	<u>\$904,739</u>	<u>2.74%</u>

Program Description

The Insurance Division regulates the insurance industry in Montana for the protection of Montana consumers. The division is comprised of four bureaus: Policyholder Service, Company Exam/Licensing, Agent Licensing, and Investigations. The Policyholder Service Bureau is responsible for resolving insurance consumer inquiries and complaints involving agents, coverage, and companies. The Company Exam/Licensing Bureau is responsible for the review of the financial condition, market conduct examination, premium tax collection, and licensing of all insurance companies doing business in Montana. They are also responsible for filing all rates and forms used by insurance companies in Montana. The Agent Licensing Bureau handles the testing and licensing of all agents and solicitors seeking to conduct the business of insurance in Montana. The Investigations Bureau investigates insurance code and rule violations.

Current Level Budget

The 1993 biennium current level increases nearly 3 percent compared to the 1991 biennium, due primarily to significant vacancy savings in personal services experienced in fiscal 1990. Personal services increase more than \$200,000 over fiscal 1990 levels due to these vacancy savings, the fiscal 1991 pay plan increase, and pay raises to the State Auditor's personal staff of

\$10,900 above the pay plan allocation. These increases are partially offset by the elimination of 3.0 FTE, at a savings of \$95,000 per year. The positions eliminated were 3.0 of 5.0 FTE approved by the 1989 legislature at the request of the State Auditor to expand regulation of the insurance industry. The positions were left vacant for nearly all of fiscal 1990 and have recently been filled by temporary personnel to do special projects. The vacancy savings achieved in these and other positions provided a portion of the funding for the additional pay raises granted to the State Auditor's personal staff. The agency cites lack of work space as the primary reason for leaving the positions vacant.

Operating expenses remain at nearly the same level as the 1991 biennium. Minor reductions from fiscal 1990 levels as submitted in the agency request are included in the current level.

This program was funded in the 1989 biennium by a state special revenue account which received fee and license revenues from regulated insurance companies. The account was de-earmarked by the 1989 legislature in Senate Bill 78, and all appropriation authorities and revenues were transferred to the general fund.

INSURANCE

Executive Budget Modification

Medicare Compliance Specialist

The Executive Budget includes \$30,317 in fiscal 1992 and \$28,265 in fiscal 1993 from the general fund for a 1.0 FTE compliance specialist. This position was authorized by the 1991 legislature in House Bill 535, which revised the medicare supplement insurance minimum standards to comply with the federal Medicare Catastrophic Coverage Act of 1988. This federal act changed mandated coverage in medicare supplement policies and required states to develop a regulatory program to meet federal standards for certification. House Bill 535 authorized the compliance specialist position for the 1991 biennium only to review supplemental insurance advertising, assist in preparation of a buyer's guide, and monitor compliance with regulations. The agency wants to continue the position to: 1) review medicare supplement insurance policy filings to determine compliance with

federal and state standards; 2) write reports and publications as required by law; and 3) to counsel the elderly about the benefits, costs, and other aspects of medicare supplemental insurance.

In addition to salary and benefits, this request includes \$4,700 for the biennium for operating expenses and \$4,500 for equipment.

Elected Official Budget Modification

National Association Dues

The State Auditor requests \$5,000 additional general fund in the 1993 biennium for the National Association of Insurance Commissioners (NAIC) dues assessment. The Executive Budget includes \$4,000 for this assessment. The assessment by the NAIC is \$4,000 in fiscal 1992 and \$5,000 in fiscal 1993. This compares to an assessment of \$2,100 in fiscal 1990 and \$3,000 in fiscal 1991. The association assists insurance commissioners in state regulation of insurance.

SECURITIES

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	9.00	9.00	9.00	9.00	.00
Personal Services	233,621	247,027	256,422	256,308	6.67%
Operating Expenses	42,291	40,896	45,517	45,440	9.34%
Equipment	<u>273</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>-100.00%</u>
Total Program	\$276,185	\$287,923	\$301,939	\$301,748	7.02%
<u>Fund Sources</u>					
General Fund	<u>276,185</u>	<u>287,923</u>	<u>301,939</u>	<u>301,748</u>	<u>7.02%</u>
Total Funds	\$276,185	\$287,923	\$301,939	\$301,748	7.02%

Program Description

The Securities Department is responsible for the administration and enforcement of the Securities Act of Montana as provided in Title 30, Chapter 10, MCA. The department is responsible for the registration of securities issuers, salesmen, broker-dealers, investment advisers, investment adviser representatives, and investigation of unregistered and fraudulent securities transactions.

Current Level Budget

The Securities Program's 1993 biennium current level increases 7 percent compared to the 1991 biennium. Personal services increase 6.7 percent due to vacancy savings experienced in fiscal 1991, the fiscal 1991 pay plan increase, and pay raises to the State Auditor's personal staff of \$5,400 above the pay plan allocation. Operating expenses increase over 9 percent due primarily to increases in fixed costs, including office rent and audit fee allocations.

This program was funded in the 1989 biennium by a state special revenue

account which received fees from regulated securities companies. The account was de-earmarked by the 1989 legislature in Senate Bill 78, and all appropriation authorities and revenues were transferred to the general fund.

Elected Official Budget Modifications

Securities Division Travel Increase

The State Auditor requests \$2,850 general fund for increased travel costs for securities criminal investigations. The investigative staff travels within the state to gather evidence and conduct interviews in securities investigations.

Securities Division Equipment

The State Auditor requests \$4,300 general fund to buy the following equipment: 1) portable personal copier, \$1,000; 2) camera, \$300; 3) document shredder, \$1,800; and 4) filing cabinets, \$1,200. The equipment would be used for securities investigations and examinations.

FISCAL CONTROL AND MANAGEMENT

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	9.50	11.00	11.00	11.00	.00
Personal Services	200,689	258,961	252,834	252,645	9.97%
Operating Expenses	306,224	300,395	420,817	411,957	37.28%
Equipment	126	1,000	0	0	-100.00%
Total Program	\$507,039	\$560,356	\$673,651	\$664,602	25.38%
<u>Fund Sources</u>					
General Fund	507,039	560,356	673,651	664,602	25.38%
Total Funds	\$507,039	\$560,356	\$673,651	\$664,602	25.38%

Program Description

The Fiscal Control and Management Division is responsible for the issuance, control, and recording of claims and warrant payments for the State of Montana. In addition, the division is responsible for collecting and recording bad debts for the state. The bad debts function was transferred from the Department of Revenue in fiscal 1990. The Fiscal Control and Management Division was a part of the Audit Division until reorganization as a separate division in fiscal 1990.

Current Level Budget

The Fiscal Management and Control Division 1993 biennium current level increases over 25 percent, due primarily to higher personal services costs, increased costs of processing state warrants through the automated warrant writing system, and higher postal volume and rates.

Personal services increases nearly 10 percent due to vacancy savings in fiscal 1990, the fiscal 1991 pay plan increase continuing into the 1993 biennium, and pay raises granted to the State Auditor's personal staff that were \$3,200 higher than the pay plan allocation. Significantly increased processing costs of the state warrant writing system, including postage volume increases, account for over 30 percent of the total 37 percent increase in

operating costs. The new automated warrant system began operating in July 1989 and processing costs and volume of warrants processed were much higher than projected. Costs for computer service charges and postage volume will exceed appropriated levels by over \$172,000 during the 1991 biennium. The shortfall in fiscal 1990 was funded by an \$85,967 supplemental appropriation from the fiscal 1991 appropriation and the agency has submitted a supplemental request for fiscal 1991. Current level warrant system processing costs and postage volume are based on fiscal 1990 actual levels, including the supplemental. Other operating expense increases over fiscal 1990 and 1991 include the audit fee allocation (\$10,000), printing costs for warrants (\$6,000), and postage rate increases (\$30,000). These increases are partially offset by decreases in computer service rates charged by the Department of Administration and reductions in communications and maintenance contracts as submitted in the agency budget request.

Executive Budget Modification

Warrant System Processing Costs

The Executive Budget includes \$193,000 of general fund for the 1993 biennium for increased processing costs of the state warrant writing system. The warrant writing system processes state agency payments including the state payroll. The agency installed a new warrant writing system in July 1989, at

FISCAL CONTROL AND MANAGEMENT

a cost of over \$240,000. In the 1991 biennium, the agency received a line-item appropriation of \$82,500 for each year of the biennium for increased warrant writing system processing costs (which was approximately the amount of the increase anticipated at the time the legislature approved development of the system). Costs in fiscal 1990 exceeded the increased appropriation by nearly 100 percent, and the agency obtained a general fund supplement of \$85,967, of which \$13,000 was for increased postage. The agency has submitted a fiscal 1991 supplemental request of \$164,849 for warrant writing system processing charges and \$98,574 for warrant postage, mailing, and printing costs. The requested increase of \$193,000 for the 1993 biennium would result in increased costs for warrant writing, system processing of over \$300,000 for the 1993 biennium, as compared to 1989 biennium costs. The increased costs of the warrant writing system requested in this modified request have been included in LFA current level as the costs are considered to be essential to provide current level services.

The estimates for this modified request are based on actual costs of operating the warrant writing system for the first six months of fiscal 1990.

Elected Official Budget Modifications

Warrant System Additional Processing Costs

The Executive Budget includes a budget modification of \$193,000 in the 1993 biennium for warrant writing system processing costs, as discussed above. The State Auditor requests an additional \$130,869 general fund for 1993 biennium processing costs. The increase is based on actual fiscal 1990 costs plus additions for an anticipated increase in the volume of warrants processed. The Executive Budget includes \$258,000 for the biennium (including the modification) for computer services and LFA current level includes \$313,200, before inflation. LFA current level is based on fiscal 1990 actual expenses,

including the supplemental. The total estimated biennial computer services costs by the agency are \$363,900. If approved, this increase would provide a total appropriation of \$388,869 in the Executive Budget or \$444,069 in LFA current level.

Warrant System Postage Costs

The State Auditor requests \$124,805 general fund for additional postage costs to mail state warrants. The increase is for postage rate increases in 1991 and for an increase in the volume of warrants being mailed. The Worker's Compensation Division has contributed to a large increase in the volume of warrants being processed. Inflation factors used by both the executive and the LFA provide for scheduled postal rate increases in the 1993 biennium.

Bad Debts System Software

The State Auditor requests \$4,250 general fund to replace the current accounts receivable software for the bad debts collection system, which has been discontinued and is no longer supported.

Warrant Writing System Equipment

The State Auditor requests \$44,127 general fund to replace outdated equipment and to update the retrieval and archiving section of the state warrant writing system. Equipment to be purchased includes: 1) warrant Imprinter-detacher, \$16,471; 2) time recorders, \$774; 3) postage meter machine, 5,782; and 4) microfilm reader-printer, \$21,100. The annual cost of a maintenance contract for the reader-printer would be \$1,800 per year.

Equipment Maintenance Contracts

The State Auditor requests an increase of \$8,680 general fund for maintenance contracts on warrant writing system equipment. Total maintenance costs are \$35,000 per biennium. The LFA current level includes \$26,320 for maintenance contracts.

FISCAL CONTROL AND MANAGEMENT

Warrant Writing System Supplies

The State Auditor requests \$20,109 general fund for increased costs of supplies (primarily warrant forms) as a result of installation of the new warrant writing system in July 1989. The request provides funding at fiscal 1990 levels, which is already included in LFA current level.

Bad Debts Program Expansion

The State Auditor recommended that the state bad debts collection program be

converted from general fund support to a proprietary fund. The program, which provides a collection service for bad debts, would be funded by retaining a percentage (an estimated 17 percent) of bad debts collected for agencies. The Executive Budget includes proprietary funding for the program at current level, \$173,430 for the biennium. The State Auditor requests an expansion of the program from 3.0 FTE to 5.0 FTE, at an additional cost of \$122,810. The expansion would allow increased collection effort of outstanding bad debts.

COMPARISON OF EXECUTIVE AND LFA CURRENT LEVELS

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Budget Item	Executive Current Level		LFA Current Level		Executive Over (Under) LFA
	Fiscal 1992	Fiscal 1993	Fiscal 1992	Fiscal 1993	
FTE	758.58	758.58	770.53	770.53	(11.95)
Personal Services	19,125,467	19,120,355	19,345,879	19,341,178	(441,235)
Operating Expenses	31,165,459	31,153,467	33,323,586	33,287,910	(4,292,570)
Equipment	135,323	133,191	114,728	97,594	56,192
Local Assistance	15,000	15,000	15,000	15,000	0
Transfers	0	0	13,685,000	13,592,000	(27,277,000)
Debt Service	155,884	155,884	155,883	155,883	2
Total Agency	\$50,597,133	\$50,577,897	\$66,640,076	\$66,489,565	(\$31,954,611)
<u>Fund Sources</u>					
General Fund	18,960,302	18,930,951	18,633,691	18,579,776	677,786
State Revenue Fund	394,487	402,046	972,523	965,137	(1,141,127)
Federal Revenue Fund	293,788	293,795	306,578	306,585	(25,580)
Proprietary Fund	30,948,556	30,951,105	46,727,284	46,638,067	(31,465,690)
Total Funds	\$50,597,133	\$50,577,897	\$66,640,076	\$66,489,565	\$(31,954,611)

Executive Budget Comparison

The LFA current level budget is \$32 million higher than the Executive Budget because it includes the Motor Fuel Tax Division and all activities of the Liquor Division. In the Executive Budget, the Motor Fuels Tax Division is transferred to the proposed Department of Transportation. The Executive Budget does not include transfers of liquor revenue (liquor profits, excise taxes, and liquor license tax) to the general fund. The Liquor Division, authorized by a language appropriation in House

Bill 100, is included in the LFA current level comparisons for informational purposes. The LFA current level budget includes transfers of liquor revenues to the general fund (\$27,277,000), while the Executive Budget does not, and the LFA current level includes \$4.4 million more than the Executive Budget for goods (liquor stock) purchased for resale. After adjusting for transfer of the Motor Fuels Tax Division and differences in the Liquor Division (see Table A), the Executive Budget is \$1.0 million higher over the biennium than the LFA current level.

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Table A
Comparison of the Executive and LFA Current Level Budgets
After Adjusting for Liquor and Motor Fuels Division Expenditures

FTE, Expenditures, and Funding	LFA Biennial Budget	Liquor Division Adjustments	Less Motor Fuels	Revised LFA Budget	Executive Biennial Budget	Executive Over(Under) LFA
FTE	770.53	0.00	24.00	746.53	758.58	12.05
Pers. Servs.	\$38,687,057	\$0	\$1,016,232	\$37,670,825	\$38,245,822	\$ 574,997
Operating	66,611,496	4,377,376	288,768	61,945,352	62,318,926	373,574
Equipment	212,322	0		212,322	268,514	56,192
Local Assist.	30,000	0		30,000	30,000	0
Transfers	27,277,000	27,277,000		0	0	0
Debt Service	311,766	0		311,766	311,768	2
Total Cost	<u>\$133,129,641</u>	<u>\$31,654,376</u>	<u>\$1,305,000</u>	<u>\$100,170,265</u>	<u>\$101,175,030</u>	<u>\$1,004,765</u>
General Fund	\$37,213,467	\$0	\$0	\$37,213,467	\$ 37,891,253	\$ 677,786
State Special	1,937,660	0	1,305,000	632,660	796,533	163,873
Federal Funds	613,163	0	0	613,163	587,583	(25,580)
Proprietary	<u>93,365,351</u>	<u>31,654,376</u>	<u>0</u>	<u>61,710,975</u>	<u>61,899,661</u>	<u>188,686</u>
Total Funds	<u>\$133,129,641</u>	<u>\$31,654,376</u>	<u>\$1,305,000</u>	<u>\$100,170,265</u>	<u>\$101,175,030</u>	<u>\$1,004,765</u>

Part of the difference (about \$180,000) between the Executive and LFA current level budgets is due to the Executive's use of the fiscal 1991 appropriation as the base, instead of fiscal 1990 expenditures (which was the base for the LFA current level). The proposed Department of Administration network fees add \$300,000 over the biennium to the Executive Budget, at least \$250,000 of which is funded with general fund. The LFA budget includes about \$25,000 more in inflation over the biennium than the Executive, as deflation rates for computer processing are lower in the LFA budget.

The current level Executive Budget contains 12.05 FTE and \$574,977 more in personal services expenditures than the LFA current level, after adjusting for the transfer of the Motor Fuels Tax Division. Table B shows the differences between the LFA and Executive Budget FTE. The LFA current level removes 9.05 FTE which were vacant for at least 12 consecutive months. The Executive current level budget continues the positions and continues 3.0 FTE not included in the LFA current level to process the employer's payroll tax.

Table B
FTE Comparison
Current Level

Current Level Comparison	Executive Over (Under) LFA
LFA Current Level	770.53
Transfer of Motor Fuels	(24.00)
Revised LFA Current Level	<u>746.53</u>
Executive Budget Current Level	<u>758.58</u>
Difference	12.05

Employer's Payroll Tax

House Bill 2, passed during the May 1990 special session of the legislature, transferred collection and enforcement of the employer's payroll tax to DOR, effective July 1, 1991. It also appropriated \$124,131 in general fund in

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fiscal 1991 to DOR to transfer tax data and develop a collection system for the tax. DOR is not responsible for long-delinquent taxes. On July 1, 1991, the bill transfers payroll tax collections that are more than 720 days old to bad debt collections in the State Auditor's Office.

The Executive Budget includes 11.33 FTE and \$716,837 of state special revenue authority (from payroll tax collections) during the 1993 biennium for DOR to administer the payroll tax (Table C). Of these FTE, 3.0 are included in the Executive current level budget and the balance is included in modified budget

requests. The request is 9.83 FTE and \$590,532 higher than the annual amount appropriated to the Department of Labor and Industry (DOLI). DOLI received no additional resources to collect the tax when it was first imposed during the 1989 biennium. The 1989 legislature appropriated \$63,000 per year and 1.5 FTE to administer the tax. DOLI contracts with the State Fund to administer the tax. However, the State Fund allocated current level resources equivalent to an additional 1.5 FTE to administer the tax. The State Fund estimates that it currently uses 3.0 FTE to collect the tax.

Table C
Comparison of Executive Budget Request to Fiscal 1991
Appropriation to Administer Employer's Payroll Tax

<u>Agency, Program, FTE and Funding</u>	<u>Fiscal 1991</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
State Fund			
FTE	1.50	1.00	0.00
State Special Revenue Appropriation	\$63,000	\$26,570	\$0
Department of Revenue			
Data Processing Division			
FTE	2.00	3.33	3.00
State Special Revenue	\$0	\$71,731	\$65,705
General Fund	69,280	0	0
Income and Miscellaneous Tax			
FTE	0.5	8.00	8.00
State Special Revenue	\$0	\$306,927	\$272,474
General Fund	<u>54,851</u>	<u>0</u>	<u>0</u>
Total Revenue Request			
FTE	2.50	11.33	11.00
State Special Revenue	\$ 63,000	\$378,658	\$338,179
General Fund	124,131	0	0
Executive Request Increase Over FY91 State Fund			
FTE		9.83	9.50
State Special Revenue		\$315,658	\$275,179
Biennial Cost Above the Annual Amount Appropriated to the State Fund			\$590,837

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Income Tax

The LFA current level maintains mainframe processing costs for the Income and Miscellaneous Tax Division at the fiscal 1990 level. The Executive Budget includes \$335,000 less for these costs during the biennium. System operation costs have exceeded appropriated levels during the 1991 biennium and current level authority was reallocated to cover the costs in fiscal 1990.

Natural Resources and Corporation Tax

The Executive Budget contains \$87,000 more for travel in the Natural Resources and Corporation Tax Division during the biennium than the LFA current level. The Executive Budget deletes a vacant 1.0 FTE and reallocates 70 percent (\$49,000 biennially) of the salary to travel expenses in this division. In addition, using the fiscal 1991 appropriation for travel (which is about \$19,000 higher than the fiscal 1990 expenditure) makes the Executive Budget travel budget higher than the LFA current level.

Fiscal 1990 actual expenditures are lower than the appropriated level because the general fund appropriation supporting travel to audit out-of-state corporations was reduced \$14,000 in fiscal 1990. The department transferred \$10,000 general fund travel authority to the Director's Office to remodel, purchase computer software and data processing supplies, and fund travel associated with House Bill 703. After fiscal year end, an additional \$4,000 general fund travel authority was transferred to cover an operating expense shortfall in the Income Tax program.

State Special Revenue Funds

Table A shows that the LFA current level budget is \$163,873 lower in state special revenue funding than the Executive Budget. Table D explains the differences in funding. The LFA current level includes \$179,196 in state special highway revenue in the Director's Office due to supervision of the Motor Fuels

Tax Division. The Executive Budget, which transfers this division to the Department of Transportation, offsets the loss of those funds by increasing general fund, liquor funds, and federal funds.

Using the fiscal 1991 appropriation as a base, the Executive Budget continues the appropriation of nongame wildlife check-off funds in the Income and Miscellaneous Tax Division. Since Section 87-5-121(5), MCA, states that those funds may not be expended for tax collection administration, the LFA current level does not include that funding source.

Finally, the Executive Budget includes 3.0 FTE and employer's payroll tax funds in the current level, while the LFA does not.

Table D
State Special Revenue Comparison
Current Level

<u>Issue</u>	<u>Executive Over (Under) LFA</u>
LFA Current Level	\$(163,873)
Motor Fuel Funding Director's Office	179,196
Revised Difference	\$(343,069)
Nongame Wildlife Funds	15,768
Payroll Tax FTE	318,235
Remaining Difference	\$(9,066)

Liquor

The Governor is proposing privatization of the state liquor retail business. Although the Executive Budget does not reflect the proposal, it states that there would be a net reduction of 52.0 FTE over the biennium under this proposal. The Executive Budget recommends that the appropriation for the Liquor Division, with the exception

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of liquor licensing, be continued in a language appropriation. The Executive Budget recommends that the appropriation for the Liquor Licensing Bureau be contained in the appropriations act.

Equipment

The LFA includes more funds for replacement of automobiles than the Executive Budget. However, the Executive Budget funds a higher level of

office equipment and computers than does the LFA.

Executive Budget Modifications

In addition to the \$101.2 million current level budget recommended for the Department of Revenue during the 1993 biennium, the Executive Budget also includes \$1,630,719 in budget modifications. These budget modifications are discussed in the program narratives.

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Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	809.08	800.58	770.53	770.53	-30.05
Personal Services	17,616,210	16,639,734	19,345,879	19,341,178	12.94%
Operating Expenses	33,449,832	3,693,817	33,323,586	33,287,910	79.33%
Equipment	176,080	141,325	114,728	97,594	-33.11%
Local Assistance	3,106	15,000	15,000	15,000	65.69%
Transfers	13,602,688	0	13,685,000	13,592,000	100.53%
Debt Service	155,883	155,884	155,883	155,883	.00%
Total Agency	\$65,003,799	\$20,645,760	\$66,640,076	\$66,489,565	55.44%
<u>Fund Sources</u>					
General Fund	17,145,905	18,482,268	18,633,691	18,579,776	4.45%
State Revenue Fund	911,250	1,020,917	972,523	965,137	.28%
Federal Revenue Fund	233,725	329,515	306,578	306,585	8.86%
Proprietary Fund	46,712,919	813,060	46,727,284	46,638,067	96.45%
Total Funds	\$65,003,799	\$20,645,760	\$66,640,076	\$66,489,565	55.44%

Agency Description

The Department of Revenue (DOR), authorized by Section 2-15-1301, MCA, collects revenue from and enforces regulations governing approximately 31 state taxes and fees. The department is also responsible for regulating the sale and distribution of alcoholic beverages in the state. The department is organized into eight divisions with overall agency direction and management coordinated from the Director's Office.

Current Level Budget

The 1993 biennial current level budget is not comparable to the 1991 biennium shown above because Liquor Division funding, authorized by a language appropriation in House Bill 100, is not included in the fiscal 1991 appropriation. A truer comparison is gained by relating fiscal 1992 and 1993 to actual expenditures in fiscal 1990. Fiscal 1992 is 2.5 percent higher than fiscal 1990 expenditures and fiscal 1993 is 2.3 percent higher.

Current level personal services costs are higher than the 1991 biennium even though current level FTE decline by 30.5 positions, which were vacant all or most

of fiscal 1990. The high number of vacancies, coupled with turnover in other positions, resulted in lower personal services expenditures in fiscal 1990 than the LFA 1993 biennium current level budget, which fully funds all remaining positions. Fiscal 1992 and 1993 personal costs are higher than fiscal 1991 as the Liquor Division is included in the 1993 biennium totals but not in the fiscal 1991 appropriation.

Operating expenses in fiscal 1992 and 1993 are slightly lower than in fiscal 1990. Since DOR is heavily automated, deflation in mainframe computer processing causes part of the decline and causes fiscal 1993 operating costs to be lower than fiscal 1992 costs. Other changes, removing one-time operating costs, more than offset increases for inflationary adjustments, workload, and fixed cost increases.

Current level equipment is lower than the 1993 biennium for several reasons. Initial computer purchases for the Computer Assisted Mass Appraisal System (CAMAS) are largely complete, as are similar purchases for other automated systems in the department. Fiscal 1990 expenditures for equipment were \$7,856 higher than budgeted, reflecting transfers of operating authority to fund equipment purchases. All replacement

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equipment requested for the Income Tax program is included in a modified request in the Executive Budget.

Local assistance reimburses local governments for welfare fraud activities. The current level budget reflects the amount of federal funding available; expenditures are dependent on the level of local government activity.

Transfers reflect revenue deposited to the general fund from operation of state liquor stores, collection of liquor excise taxes, and sale of liquor licenses. The amounts included in fiscal 1992 and 1993 are estimates, based on historical trends and current law. The Governor plans to propose the privatization of state liquor stores by the end of the 1993 biennium.

Debt service is the amount budgeted for payment of equipment, software, and system development costs for CAMAS. These payments were authorized by the 1989 legislature and are expected to continue at this level until fiscal 1994.

General fund, which provides about 28 percent of total department funding, supports all or a portion of every program in the department except the Motor Fuels and Liquor Divisions. General fund support increases about \$1.5 million per year during the 1993 biennium over actual fiscal 1990 funding largely due to fully budgeting personal services. The general fund appropriation in fiscal 1990 was \$18,152,627--close to the amount included in the fiscal 1991 appropriation and the current level budget.

State special revenue includes highway special revenue, unclaimed property proceeds, oil and gas special revenue, and the state lands resource development account.

Federal funds include medicaid and welfare fraud investigation funds and federal royalty audit funds. Federal funds increase in current level over the fiscal 1990 actual expenditures due to budgeting the full reimbursement available for welfare fraud

investigation and due to cost increases in federally funded activities. Annual current level federal funding is lower than the fiscal 1991 appropriated level because the federal support contract negotiated for the federal royalty audit function in the 1993 biennium is lower than the amount budgeted in fiscal 1991.

Proprietary liquor funds are the largest source of funding for the department. The proprietary funding in the fiscal 1991 appropriation includes only the liquor funds that support other programs in DOR, since the appropriation for the Liquor Division is included in language in House Bill 100. The LFA current level budget includes the estimated Liquor Division budget and funding for comparison to fiscal 1990 actual expenditures.

Issues

House Bill 703--Annual Sales Assessment Ratio Studies

House Bill 703, enacted by the 1989 legislature, directs DOR to equalize property values annually for residential and commercial property classes based on sales-assessment ratios. The annual adjustment provides for interim corrections to property values within the more comprehensive five to seven-year reappraisal cycles. In its 1990 sales-assessment ratio study, DOR found that assessed values in some areas of the state were 32 percent below comparable market values, while the assessed values in other areas were as much as 21 percent above market value.

In October 1990, the Montana Supreme Court held that the application of the DOR 1990 sales-assessment ratio study "offends constitutional principles," prohibiting interim adjustments to assessed values derived from results of such studies after December 31, 1990. Under the order, the sales-assessment ratio study values could be applied to update assessed values for all properties for tax year 1990, except those cases pending on appeal or properly appealed by the property owners as of the date of the court's first order.

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In testimony before the Revenue Oversight Committee (ROC) in December 1990, DOR indicated that it will present to the 1991 legislature a proposal for "selective reappraisal"--a method to annually determine the correct assessment level for similar property located in specific areas of the state. DOR proposes to use a sales-assessment ratio study to identify areas in the state where assessed values are significantly different than assessed values as estimated from recent sales data. In these areas, DOR will reappraise all property and use the new assessed values for the coming tax year. If the results of the 1990 sales-assessment ratio study were used, DOR estimated that there are six areas in the state that would need to be reappraised under this proposal.

If this methodology is adopted, the department may need to redirect resources to reappraise all property within these areas in sufficient time for the coming tax year. Such a redirection of resources may impact DOR's ability to complete the reappraisal cycle by the statutory deadline.

Table 1 shows the allocation of the appropriation provided by the 1989 legislature to implement House Bill 703. These operational costs and FTE are continued in the LFA current level budget, even though the Supreme Court has held that application of the statutorily required sales-assessment ratio is unconstitutional and prohibited adjustments to assessed values based on such study results after tax year 1990. Since DOR will propose alternative methods for complying with this law to the 1991 legislature, these costs are included in the current level budget.

Table 1
Allocation of House Bill 703
Appropriation and FTE

<u>FTE and Costs</u>	<u>Fiscal 1990</u>	<u>Fiscal 1991</u>
FTE	3.00	3.00
Personal Services	\$ 84,814	\$ 84,879
Contracted Services	66,740	66,740
Supplies	2,700	2,700
Communications	87,045	87,045
Travel	3,865	3,865
Subtotal Operations	<u>\$160,350</u>	<u>\$160,350</u>
Total General Fund	\$245,164	\$245,229

Note: All appropriation authority is in the Property Assessment Division. FTE are allocated to: 1.0 in Director's Office; 1.0 in Data Processing; and 1.0 in Property Assessment.

Expenditure of Personal Services Funds for Operating Expenses

In fiscal 1990, three programs in DOR expended a total of \$38,846 in personal services funds for operating costs and transferred \$11,558 of personal services funds between programs. Sections 7 and 8 of House Bill 100 provide that funds appropriated for personal services may not be transferred to another program.

In addition, personal services funds may not be spent under any other category of expenditure with two exceptions: personal services funds may be moved to contracted services to privatize a function at a lower cost or to acquire the same services if an agency is unable to fill a professional position. Table 3 shows that \$11,558 of fiscal 1990 personal services appropriation was expended in the operating expense category in the Property Assessment Division (PAD). Table 2 shows the beginning fiscal 1990 appropriation for PAD listed in the LFA appropriation report; appropriation and operating plan adjustments processed by OBPP; the

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revised fiscal 1990 appropriation; and actual expenditures. PAD transferred \$105,000 to the Income Tax program during fiscal 1990 to support computer system costs that were higher than anticipated. After fiscal 1990 year end, PAD transferred another \$19,000 to Income Tax. The difference column shows where funds were expended by operating

category. While \$4,964 of authority remained in the equipment and debt service categories, the operating expense category was overexpended by \$16,522. The net difference in operating expenditures (\$11,558) was shifted from personal services and transferred to the Income Tax program.

Table 2
Comparison of Appropriated to Actual Expenditures
Property Assessment Division

<u>Expenditure and Funding</u>	<u>Fiscal 1990 Appropriation</u>	<u>Operating Adjustments</u>	<u>Revised Appropriation</u>	<u>Actual Expenditures</u>	<u>Difference</u>
Personal Servs.	\$ 9,136,399	\$ 0	\$ 9,136,399	\$ 8,711,068	\$425,331
Operating Exps.	1,725,973	(124,000)	1,601,973	1,618,495	(16,522)
Equipment	109,656	0	109,656	104,693	4,963
Nonop. Costs	<u>155,884</u>	<u>0</u>	<u>155,884</u>	<u>155,883</u>	<u>1</u>
Total	\$11,127,912	(\$124,000)	\$11,003,912	\$10,590,139	\$413,773

Personal Services Appropriation Expended in the Operating Category
and Transferred to Another Program

\$ 11,558

Note: Operating adjustments include a general fund program transfer of \$105,000 to Income and Miscellaneous Tax Division during fiscal 1990. After fiscal year end, the department transferred \$19,000 general fund operating authority to the Income Tax program.

The transfer of general fund from PAD to the Income Tax program was necessary as the Income Tax program expended \$24,933 personal services funds in the operating expenditure category in fiscal 1990. After fiscal year end 1990, the department attempted to rectify the situation by transferring \$31,000 in general fund to the Income Tax program, with PAD providing \$19,000 of the transfer.

In addition to the over-expenditure of operating expenses in PAD, the Central-

ized Services Division moved \$29,340 of personal services funds to contracted services to privatize mail opening services for a projected cost savings of \$1,170. However, the actual cost of the contract was only \$18,366, leaving a balance of \$10,974 of the personal services funds in the operating budget. To date, the division has expended \$2,355 of those funds for other operating expenses, including a \$4,000 program transfer to the Income Tax program.

DEPARTMENT OF REVENUE

Executive Budget Modifications

1993 Biennium

<u>Budget Modifications</u>	<u>FTE</u> <u>FY92</u>	<u>FTE</u> <u>FY93</u>	<u>General</u> <u>Fund</u>	<u>Other</u> <u>Funds</u>	<u>Total</u>
1) Employer's Payroll Tax	8.33	8.00	\$	\$398,207	\$ 398,207
2) Accounts Receivable	3.00	3.00	175,172		175,172
3) Equipment Replacement			126,778		126,778
4) Cyclical Reappraisal Work Costs			271,000		271,000
5) Additional CAMAS Costs			659,562		659,562
Total	11.33	11.00	\$1,232,512	\$398,207	\$1,630,719

The Executive Budget includes the modifications listed above. Each of these modified budget requests is dis-

cussed in more detail in the respective program budget narratives.

DIRECTOR'S OFFICE

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	14.50	14.50	34.50	34.50	20.00
Personal Services	917,666	547,759	1,145,035	1,144,624	56.25%
Operating Expenses	346,607	156,265	301,803	305,002	20.67%
Equipment	26,279	3,000	12,690	12,690	-13.32%
Local Assistance	3,106	0	15,000	15,000	865.87%
Total Program	\$1,293,658	\$707,024	\$1,474,528	\$1,477,316	47.54%
<u>Fund Sources</u>					
General Fund	738,815	564,499	840,329	844,408	29.27%
State Revenue Fund	85,989	87,895	89,598	89,598	3.05%
Federal Revenue Fund	108,393	0	173,578	173,585	220.28%
Proprietary Fund	360,461	54,630	371,023	369,725	78.45%
Total Funds	\$1,293,658	\$707,024	\$1,474,528	\$1,477,316	47.54%

Program Description

The Director's Office provides management control, coordination of policy direction, strategic planning, legal, and investigative services that assist the tax programs in fulfilling collection and enforcement responsibilities. The Administration program provides policy development, operations, and budget coordination for the agency and supervision of the Director's Office. The Legal Unit advises program staff and handles a large number of tax appeals before the State Tax Appeal Board as well as state courts. Investigations program staff oversee liquor and welfare fraud investigations. Research and Information Section staff perform and publish detailed studies concerning the impact on state and local revenue sources caused by legislative action, executive decisions, and changes in economic patterns.

Current Level Budget

The current level budget for this program is higher than the 1991 biennium due to: reorganization that moved the Investigations program and the Research and Information Unit of the Data Processing Division into the Director's Office; and a transfer of 2.0 FTE from

the Property Assessment Division into this program. These actions increased the Director's office by 21.0 FTE in fiscal 1991. The current level budget shown above includes only 20.0 FTE as a grade 19 career executive position, which was vacant all of fiscal 1990 and through the first quarter of fiscal 1991, is removed. After adjusting for the reorganization and FTE transfer, the current level is 2.1 percent lower than the 1991 biennium.

Operating costs are lower as one-time expenses for travel associated with House Bill 703 (sales-assessment ratio studies), updates for computer software, and office remodeling are removed. Equipment includes replacement of PC's in the Legal Unit, office equipment, and one vehicle per year in the Investigations program.

Program funding is a combination of general fund, state special, and federal revenue (Table 3). (Federal funds in the Director's Office program reflect supervision of federally funded programs within the Investigations program.) The Executive Budget transfers the Motor Fuels Division to the proposed Department of Transportation and offsets the loss of highways special revenue in the Administration program by increasing general fund, federal funds, and liquor funds. The Legal Unit is supported by general fund and liquor funds. The

DIRECTOR'S OFFICE

allocation of liquor funds is slightly greater to account for inflation in operating costs. General fund increases as 2.0 FTE transferred from the PAD are fully supported by general fund.

The Investigations program is funded by general fund, federal funds, and liquor funds. Welfare fraud investigations are federally supported, including a pass-through appropriation available to reimburse county prosecutors for time spent on such cases.

Table 3
Budget Detail for Director's Office Program

Function, Operating Costs, and Funding	Fiscal 1990	Fiscal 1992	Fiscal 1993
Director's Office			
Personal Services	\$253,070	\$302,457	\$302,358
Operating Costs	206,749	180,923	184,871
Equipment	275	0	0
Subtotal	<u>\$460,094</u>	<u>\$483,380</u>	<u>\$487,229</u>
General Fund	\$347,126	\$327,206	\$331,055
State Special	85,989	89,598	89,598
Federal Funds	0	37,068	37,068
Proprietary	26,979	29,508	29,508
Subtotal	<u>\$460,094</u>	<u>\$483,380</u>	<u>\$487,229</u>
Legal Unit			
Personal Services	\$258,718	\$353,896	\$354,510
Operating Costs	39,335	34,131	34,571
Equipment	3,202	1,700	1,700
Subtotal	<u>\$301,255</u>	<u>\$389,727</u>	<u>\$390,781</u>
General Fund	\$248,096	\$333,534	\$334,588
Proprietary	53,159	56,193	56,193
Subtotal	<u>\$301,255</u>	<u>\$389,727</u>	<u>\$390,781</u>
Investigations			
Personal Services	\$280,696	\$327,308	\$326,610
Operating Costs	85,943	72,725	72,119
Equipment	22,802	10,990	10,990
Nonoperating	3,106	15,000	15,000
Subtotal	<u>\$392,547</u>	<u>\$426,023</u>	<u>\$424,719</u>
General Fund	\$3,831	\$4,191	\$4,178
Federal Funds	108,393	136,510	136,517
Proprietary	280,323	285,322	284,024
Subtotal	<u>\$392,547</u>	<u>\$426,023</u>	<u>\$424,719</u>
Research and Information			
Personal Services	\$125,181	\$161,374	\$161,146
Operating Costs	14,581	14,024	13,441
Equipment	0	0	0
Subtotal	<u>\$139,762</u>	<u>\$175,398</u>	<u>\$174,587</u>
General Fund	\$139,762	\$175,398	\$174,587
Total Costs and Funding			
Personal Services	\$917,665	\$1,145,035	\$1,144,624
Operating Costs	346,608	301,803	305,002
Equipment	26,279	12,690	12,690
Nonoperating	<u>3,106</u>	<u>15,000</u>	<u>15,000</u>
Total Costs	<u>\$1,293,658</u>	<u>\$1,474,528</u>	<u>\$1,477,316</u>
General Fund	\$ 738,815	\$ 840,329	\$ 844,408
State Special	85,989	89,598	89,598
Federal Funds	108,393	173,578	173,585
Proprietary	<u>360,461</u>	<u>371,023</u>	<u>369,725</u>
Total Funds	<u>\$1,293,658</u>	<u>\$1,474,528</u>	<u>\$1,477,316</u>

CENTRALIZED SERVICES DIVISION

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	32.27	30.77	30.77	30.77	.00
Personal Services	639,284	696,950	703,832	702,561	5.25%
Operating Expenses	124,164	112,483	103,181	101,143	-13.66%
Equipment	<u>4,680</u>	<u>6,000</u>	<u>3,524</u>	<u>3,524</u>	<u>-34.01%</u>
Total Program	\$768,128	\$815,433	\$810,537	\$807,228	2.16%
<u>Fund Sources</u>					
General Fund	768,128	808,862	810,537	807,228	2.59%
Federal Revenue Fund	<u>0</u>	<u>6,571</u>	<u>0</u>	<u>0</u>	<u>-100.00%</u>
Total Funds	\$768,128	\$815,433	\$810,537	\$807,228	2.16%

Program Description

The Centralized Services Division performs a variety of accounting, fiscal control, and budgeting services for all department divisions. In addition, the division administers beer and wine tax collections. Specific responsibilities include: recording, summarizing, analyzing, and reporting budget and accounting data including cash receipts, distribution, and payment of invoices; maintaining beer and wine tax collection records and completion of monthly collection reports; providing centralized payroll services and position control services; maintaining records of all department fixed assets; performing inventory, fiscal, and performance audits of all state liquor stores; depositing all tax collections for the department; receiving and distributing all department mail; and managing a supply operation for liquor stores and a purchasing function for department purchases.

Current Level Budget

The current level budget for this program increases 2.16 percent over the 1991 biennium due to vacancy savings in fiscal 1990 and continuation of the fiscal 1991 pay plan increase in the

1993 biennium. Operating costs decline due to reductions in contracted services and rent. The program contracted for mail opening services in fiscal 1990 and (as allowed in House Bill 100) moved funds budgeted for personal services to contracted services as the cost of contracting the service was lower. The current level budget maintains the FTE assigned to open mail and removes the contract amount from operating costs. The program plans to seek bids for contracted services in the 1993 biennium and let another contract if it remains cost effective to do so.

Current level equipment includes replacement of one PC and two wide-carriage printers each year. While the 1989 legislature budgeted for a replacement van in fiscal 1990, the program chose instead to purchase computer software with the funds and lease a van through the state motor pool. The agency request for a replacement van in fiscal 1992 is not included in the current level budget.

The program is funded entirely from general fund. Federal child support enforcement funds are included in the fiscal 1991 appropriation; however, the function was transferred to the Department of Social and Rehabilitation Services effective July 1, 1989.

DATA PROCESSING DIVISION

<u>Budget Item</u>	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	50.50	50.50	47.30	47.30	-3.20
Personal Services	1,119,314	1,391,754	1,308,708	1,309,265	4.26%
Operating Expenses	128,761	178,950	130,226	128,093	-16.05%
Equipment	<u>7,781</u>	<u>3,125</u>	<u>4,348</u>	<u>2,214</u>	-39.83%
Total Program	\$1,255,856	\$1,573,829	\$1,443,282	\$1,439,572	1.88%
<u>Fund Sources</u>					
General Fund	801,121	1,104,223	976,101	971,653	2.23%
Proprietary Fund	<u>454,735</u>	<u>469,606</u>	<u>467,181</u>	<u>467,919</u>	1.16%
Total Funds	\$1,255,856	\$1,573,829	\$1,443,282	\$1,439,572	1.88%

Program Description

The Data Processing Division provides automated data and word processing services, detailed systems requirements analysis, systems development and maintenance services, data entry services, computer operations support services, technical support for departmental and personal computers, and research services relating to tax policy, revenue estimating, and Montana tax laws. The division is comprised of four distinct components which are: Computer Operations, Technical Support, Data Entry/Text Administration, and Mid-range and Micro-computer Development.

Current Level Budget

The current level budget increases 1.9 percent over the 1991 biennium budget. The number of FTE in fiscal 1992 and 1993 is lower than appropriated for the 1991 biennium, since 5.0 FTE in the Research and Information section were moved from the Data Processing Division to the Director's Office; and 2) 1.8 FTE were transferred to the division from the Property Assessment Division. Personal services costs for the remaining staff are higher in the 1993 biennium than in fiscal 1990 due to vacancy savings, continuation of the fiscal 1991 pay increase into the 1993 biennium, and a number of upgrades and step increases authorized to recruit staff.

Operating costs decrease over the 1993 biennium as fiscal 1990 contracted services costs were less than the amount budgeted in 1991 and \$18,320 in operating costs for the Research and Information section were transferred to the Director's Office. The program also transferred \$20,000 general fund contracted services authority to the Director's Office in fiscal 1990, resulting in a lower base than the amount appropriated in 1991.

Current level equipment includes three PC's, two in fiscal 1992 and one in fiscal 1993.

Program funding is from the general fund and proprietary liquor funds. Current level liquor funds are allocated in the same proportion as the amount expended in fiscal 1990, except for funding the 1.8 FTE transferred from Property Assessment. Those FTE are fully supported by general fund.

Executive Budget Modification

Employer's Payroll Tax

Responsibility for administration and collection of the employer's payroll tax was transferred from the Department of Labor and Industry to DOR effective July 1, 1991. This request would add 2.33 FTE and \$77,138 in state special revenue to support data processing tasks, in addition to the 1.0 FTE and operating costs in the base request. Including a

DATA PROCESSING DIVISION

modified request in the Income Tax program, the department would add 11.33 FTE and \$716,837 in authority to collect

the payroll tax. There is an expanded discussion of this modified request in the comparison section.

INVESTIGATION AND ENFORCEMENT DIVISION

<u>Budget Item</u>	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	21.00	14.00	.00	.00	-14.00
Personal Services	0	413,377	0	0	-100.00%
Operating Expenses	0	85,298	0	0	-100.00%
Equipment	0	17,044	0	0	-100.00%
Local Assistance	0	15,000	0	0	-100.00%
Total Program	\$0	\$530,719	\$0	\$0	-100.00%
<u>Fund Sources</u>					
General Fund	0	56,985	0	0	-100.00%
State Revenue Fund	0	12,176	0	0	-100.00%
Federal Revenue Fund	0	172,734	0	0	-100.00%
Proprietary Fund	0	288,824	0	0	-100.00%
Total Funds	\$0	\$530,719	\$0	\$0	-100.00%

Program Description

The Investigation and Enforcement Division has been reorganized. Appropriation authority and 7.0 FTE that

oversee the video poker investigations were transferred by the 1989 legislature to the Department of Justice, effective July 1, 1989. The remaining 14.0 FTE and authority were transferred to the Director's Office.

LIQUOR DIVISION

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	125.00	125.00	105.00	105.00	-20.00
Personal Services	2,733,062	0	2,669,554	2,671,428	95.42%
Operating Expenses	29,546,075	0	29,534,526	29,536,995	99.93%
Equipment	15,898	0	0	0	-100.00%
Transfers	13,602,688	0	13,685,000	13,592,000	100.53%
Total Program	\$45,897,723	\$0	\$45,889,080	\$45,800,423	99.77%
<u>Fund Sources</u>					
Proprietary Fund	45,897,723	0	45,889,080	45,800,423	99.77%
Total Funds	\$45,897,723	\$0	\$45,889,080	\$45,800,423	99.77%

Program Description

The Liquor Division administers the control, sale, and distribution of alcoholic beverages and the licensing of manufacturers, wholesalers, and retailers of alcoholic beverages in Montana (Title 16, MCA). The division orders all merchandise for distribution and sale through the state retail liquor stores/agencies, publishes a retail price list on a quarterly basis, prepares analysis on new products and sales patterns of existing products, and audits all merchandise invoices and freight claims. The division warehouse receives and stores all alcoholic beverage merchandise, assembles orders from individual state retail liquor stores/agencies, and schedules shipment of merchandise. The division also supervises and evaluates all phases of state retail store and agency operations, analyzes and audits retail outlets' financial condition and profit potential, negotiates store leases and evaluates bids for selection of agencies, and develops and implements merchandising/marketing techniques and training programs for store personnel and agents. Additionally, the division determines qualifications of applicants for manufacture, wholesale, and retail licenses, issues licenses, and processes annual renewals of licenses and registrations.

Current Level Budget

Operating authority for the Liquor Division during the 1991 biennium is contained in a language appropriation in House Bill 100. The actual expenditures for fiscal 1990 and the current level request are shown for informational purposes. House Bill 100 limits operational expenses to no more than 15 percent of net sales and directs the division to attempt to realize a profit at least 10 percent of net sales. Net sales are defined as gross sales less discounts and all taxes collected. In fiscal 1990, the division replaced its mainframe computer system with a new PC system. Pricing problems in the system, discovered late in fiscal 1990, have prevented the division from compiling accurate data on sales and operating costs for fiscal 1990. The department intends to have the problems and data corrected in time to publish the fiscal 1990 report for presentation to the legislature. Until the system data is corrected, it is not possible to calculate the Liquor Division performance measures established in House Bill 100.

Current level FTE are 20.0 full-time positions lower than the appropriated level in fiscal 1991. The department deleted 18.0 FTE due to conversion of state administered liquor stores to contracted agency stores. The LFA current level removes another 2.0 FTE that were vacant all or most of fiscal

LIQUOR DIVISION

1990. Due to those reductions, personal services costs are lower in fiscal 1992 and 1993 than in fiscal 1990.

Annual operating costs are slightly lower than fiscal 1990 actual costs. Most of the decrease is attributable to lower contracted services costs. The division contracted for development of computer software in fiscal 1990 and ongoing maintenance costs are lower than development costs.

Based upon projected profits from the liquor operation and the current level budget, transfers to the general fund are estimated to be \$13,685,000 in fiscal 1992 and \$13,592,000 in fiscal 1993.

Issues

Bailment

In 1990, the department began a "bailment" program, in which private vendors own the liquor and wine stocked in the state warehouse. The product becomes state property once it is loaded on a truck for shipment to a store. The department pays vendors for product purchases every three weeks. Previously, the department purchased stock from liquor vendors and then stored it in the warehouse. Under the bailment program, the department furnishes warehouse space and the labor to move the product between truck and warehouse. The state will also provide an estimate of the amount of product likely to be sold by area, if a vendor desires the information. The department estimates that the bailment program will result in one-time general fund revenue of \$4 million in fiscal 1991 (the amount of state investment in warehouse inventory previous to the bailment program).

Montana may become a trans-shipment point for North and South Dakota, as vendors can, under the bailment program, remove stock from the state warehouse for shipment elsewhere. There are penalties if a company depletes stock so that stores in Montana are unable to obtain products. Vendors will also reimburse the department for time and materials costs incurred to load the shipment on trucks. While the department does not expect to earn profits due to trans-shipment services, it states that reimbursements will offset some fixed costs that otherwise would be incurred.

Privatization

The Governor will propose legislation to privatize the retail liquor function now managed by this division. The programmatic changes of such legislation are not reflected in the Executive Budget recommendation. Under the proposal, liquor stores and contracts for agency stores would be discontinued during a phase-in period, allowing private companies to operate liquor stores. All establishments with liquor licenses would be required to purchase products wholesale from the state.

Under this proposal, the Liquor Division would still perform merchandizing and licensing functions in addition to expanding the billing and warehousing functions now in place. The department estimated that the division will reduce 73.0 FTE in the stores function and add 21.0 FTE for warehouse services, for an overall net reduction of 52.0 FTE. The department estimates that there will be a one-time general fund savings of \$4.0 million as the state-owned stock in state and agency stores is sold and private vendors begin purchasing store inventory.

INCOME AND MISCELLANEOUS TAX DIVISION

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	103.15	103.15	102.65	102.65	-.50
Personal Services	2,190,690	2,433,571	2,444,973	2,442,701	5.70%
Operating Expenses	1,208,149	1,033,169	1,187,652	1,148,223	4.22%
Equipment	8,516	0	0	0	-100.00%
Total Program	\$3,407,355	\$3,466,740	\$3,632,625	\$3,590,924	5.08%
<u>Fund Sources</u>					
General Fund	3,254,773	3,298,926	3,469,237	3,430,994	5.29%
State Revenue Fund	152,582	167,814	163,388	159,930	.91%
Total Funds	\$3,407,355	\$3,466,740	\$3,632,625	\$3,590,924	5.08%

Program Description

The Income and Miscellaneous Tax Division administers and enforces the Montana personal income, withholding, miscellaneous, inheritance, and accommodation taxes. Program responsibilities include administering the income tax withholding system, processing partnership, fiduciary and trust returns, estimated income taxes, filing extensions, and elderly homeowner/renter credits. The program accounts for tax returns and payments; collects delinquent taxes; simplifies reporting requirements; issues tax refunds; assists taxpayers and employers in filing returns; audits tax returns; insures compliance with the tax laws; and manages the accommodation tax. The division distributes forms and instructions to taxpayers, manages toll-free telephone lines, trains volunteers to assist others in completing their returns, conducts small business clinics to inform employers of the requirements for state tax withholding, and manages training programs for practitioners on changes in tax laws and regulations.

Current Level Budget

The current level budget is 5.1 percent higher than the 1991 biennium due to increased personal services and operating expenses. Personal services increase in spite of a reduction of 0.5 FTE that was vacant all fiscal 1990

because of vacancy savings in fiscal 1990 and continuation of the fiscal 1991 pay plan increase in the 1993 biennium.

Annual operating costs are lower than fiscal 1990 actuals due to reduced mainframe processing rates. In fiscal 1990, the program spent \$136,942 more than it was appropriated in operating costs due to higher than anticipated computer processing costs (see "Issue" section). Operating cost overruns were covered by transfers from other programs, including a \$124,000 general fund transfer from the Property Assessment Division. The program equipment request is included in a modified budget request discussed below.

General fund is the major funding source for this program. State special revenue supports several functions, including the Unclaimed Property program, accommodation tax administration, and administration of emergency telephone funds. Dangerous drug tax collections are statutorily appropriated to offset administrative costs. In fiscal 1990, the department collected \$1,895 from this source and used the revenue to offset current level general fund personal services costs.

Issue

Computer Processing Costs

The most significant operating expenditure in the Income Tax program in

INCOME AND MISCELLANEOUS TAX DIVISION

fiscal 1990 was in contracted services for mainframe computer processing. The 1989 legislature increased the annual appropriation for this expenditure \$142,582 to accommodate expected growth for the accounts receivable and income tax computer systems. The total budgeted annual expenditure for this item was \$434,010 in fiscal 1990, compared to actual expenditures of \$591,018. The current level budget continues the mainframe processing costs at the level incurred in fiscal 1990 less funds expended from personal services to cover computer processing costs.

Executive Budget Modifications

Employer's Payroll Tax

The administration and collection of the employer's payroll tax was transferred from the Department of Labor and Industry to DOR effective July 1, 1991. This request would add 6.0 FTE and \$321,159 state special revenue authority for the biennium. The Executive Budget also includes 2.0 FTE in the current level Income Tax program. A total of 11.33 FTE and \$716,837 would be added to

administer this tax if the base and modified requests in the Data Processing program are included. Note the expanded discussion of this modified request in the budget comparison section.

Accounts Receivable

Three FTE and \$175,172 in general fund would be added over the biennium to enhance collection efforts in income and business taxes owed to the state. As of September 1990, outstanding accounts receivable for income tax totalled about \$20.5 million. This budget modification would allow the department to hire two phone collectors and a legal collector to increase tax collections and reduce the amount owed to the state. The request also includes \$11,562 in fiscal 1992 for purchase of equipment.

Equipment Replacement

The Executive Budget includes \$126,778 in general fund during the biennium to replace aging equipment, including eight computer terminals or PC's, one high-speed printer, three PC printers, six vehicles, and two numbering machines.

NATURAL RESOURCE AND CORPORATION TAX DIVISION

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	35.00	35.00	33.00	33.00	-2.00
Personal Services	842,612	1,089,998	981,209	979,373	1.45%
Operating Expenses	337,271	356,386	339,056	342,802	-1.70%
Equipment	795	2,500	2,410	2,410	46.28%
Total Program	\$1,180,678	\$1,448,884	\$1,322,675	\$1,324,585	.67%
<u>Fund Sources</u>					
General Fund	992,929	1,234,721	1,124,602	1,126,512	1.05%
State Revenue Fund	62,417	63,953	65,073	65,073	2.99%
Federal Revenue Fund	125,332	150,210	133,000	133,000	-3.46%
Total Funds	\$1,180,678	\$1,448,884	\$1,322,675	\$1,324,585	.67%

Program Description

The Natural Resource and Corporation Tax Division administers 17 different taxes including: corporation license tax, oil and gas severance tax, coal severance tax, metal mines tax, gross and net proceeds tax, local government severance tax, electrical energy license tax, and the resource indemnity trust tax. The division also administers the state and federal royalty audit programs related to mineral production from state and federal lands located in Montana.

Table 4
Multistate Tax Commission Budget

<u>Item</u>	<u>Appropriated Fiscal 1990</u>	<u>Fiscal 1991</u>	<u>Request Fiscal 1992</u>	<u>Request Fiscal 1993</u>
Dues			\$ 7,494	\$ 7,842
Audit			84,213	88,424
Total	\$84,159	\$89,614	\$91,707	\$96,266

Current Level Budget

The current level increases only slightly over the 1991 biennium. Personal services increase 1.45 percent in spite of removing 2.0 FTE that were vacant all of fiscal 1990 and through the first quarter of fiscal 1991. Personal services increase due to vacancy savings in fiscal 1990 and continuation of the 1991 pay plan increase into the 1993 biennium.

Operating costs increase to fund higher membership services costs of the Multistate Tax Commission (MTC) (see Table 4). The MTC audits businesses that operate in and pay taxes to several states, eliminating the need for duplicative state audits. Equipment includes one PC per year.

Program funding is determined by staff function. The 3.0 FTE that perform federal royalty audits are supported by federal funds. The 2.0 FTE responsible for audits related to the administration of state-owned lands are funded by the Department of State Lands' resource development account and the oil and gas special revenue account. The remaining FTE and functions are supported by general fund. The amount of federal funding is based on the contract negotiated with the federal government for the 1993 biennium. General fund increases in order to support specific operating cost increases.

NATURAL RESOURCE AND CORPORATION TAX DIVISION

Issue

Reduction in Audit Travel

DOR reduced the program general fund travel budget from \$35,632 to \$21,632 in fiscal 1990. Over 95 percent of this budgeted amount is used for out-of-state travel related to audits. In fiscal 1990, DOR transferred \$10,000 from this program to the Director's Office to fund office remodeling, purchase computer software and data processing supplies,

and fund travel related to House Bill 703. After fiscal year end, an additional \$10,000 was transferred to the Income Tax program to fund operating costs for the development of the computer system.

The Executive Budget request deletes 1.0 general fund FTE that was vacant throughout fiscal 1990 and reallocates 70 percent of the savings (\$25,000) to travel. The LFA current level budget continues travel at the fiscal 1990 actual expenditure level.

PROPERTY ASSESSMENT DIVISION

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	403.66	403.66	395.31	395.31	-8.35
Personal Services	8,711,068	9,522,891	9,584,282	9,583,280	5.12%
Operating Expenses	1,618,495	1,625,621	1,580,964	1,583,062	-2.47%
Equipment	104,693	109,656	91,756	76,756	-21.39%
Debt Service	<u>155,883</u>	<u>155,884</u>	<u>155,883</u>	<u>155,883</u>	<u>.00%</u>
Total Program	\$10,590,139	\$11,414,052	\$11,412,885	\$11,398,981	3.67%
<u>Fund Sources</u>					
General Fund	<u>10,590,139</u>	<u>11,414,052</u>	<u>11,412,885</u>	<u>11,398,981</u>	<u>3.67%</u>
Total Funds	\$10,590,139	\$11,414,052	\$11,412,885	\$11,398,981	3.67%

Program Description

The Property Assessment Division (PAD) is responsible to secure a fair, uniform, and equitable valuation of all taxable property within and among counties, between different classes of property, and between individual taxpayers. Specific duties are: completing reappraisal of all real property in accordance with the statutory time schedule; valuing new construction and land use changes; assessing personal property each year; completing an annual sales assessment ratio study to more closely approximate market value of land and improvements for property tax purposes; auditing taxpayer property tax returns to ensure all taxable property is reported; centrally valuing railroad, public utility, and airline properties; considering all requests for property tax exemptions and reductions; defending the department in tax appeals before county and state tax appeal boards and the courts; and conducting schools for assessors and appraisers. State offices are located in each of the 56 counties, under the direct supervision of either an elected assessor (assessment office), an appraisal supervisor (appraisal office), or a county manager (appraisal/assessment-combined office).

Current Level Budget

The current level budget increases 3.7 percent over the 1991 biennium. Personal services costs are higher, despite the transfer of 3.8 FTE to other programs and elimination of 4.55 FTE that were vacant all of fiscal 1990 and the first quarter of fiscal 1991. The program experienced high vacancy savings in fiscal 1990. DOR reported to the ROC that it experienced a 25 percent turnover in field staff beginning in the last half of fiscal 1989 and continuing through fiscal 1990.

Operating costs decline due to removal of one-time repair and maintenance costs for multi-user computers. The division transferred \$105,000 of operating expense authority in fiscal 1990 to the Income Tax program, reducing its fiscal 1990 expenditures below the fiscal 1991 appropriation.

Equipment declines as the program has purchased most of the PC's needed for CAMAS. The 1993 biennium equipment budget includes purchase of replacement vehicles for field offices and replacement PC's.

The following tables (5, 6, and 7) show the budget detail for the three programs of PAD. Together these program budgets equal the total current level division budget.

PROPERTY ASSESSMENT DIVISION

Table 5
Elected Assessors and Other Staff

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>----Current Level----</u> <u>Fiscal 1992</u> <u>Fiscal 1993</u>		<u>Change 1990 to 1992</u>
FTE	70.7	68.6	68.6	-2.1
Personal Services	\$1,542,016	\$1,749,022	\$1,751,283	13.42%
Operating Expenses	28,810	0	0	-100.00%
Total Costs	\$1,570,826	\$1,749,022	\$1,751,283	11.34%
Funding Source				
General Fund	\$1,570,826	\$1,749,022	\$1,751,283	11.34%

Current Level Budget

The Elected Assessors and Other Staff program funds 70 percent of the salaries of elected assessors and deputy assessors. The operating expenses reflect contracts with counties which assume payroll processing responsibilities from the department. (The transfer of funds to the county is recorded as contracted services.) For budgeting purposes, all expenditures are considered personal services.

FTE decline 2.1 positions over the biennium as the commissioners of two counties (Musselshell and Meagher) requested that the county assessor and appraisal offices be combined. A public hearing must be held regarding the elimination of the elected assessor position before a county can give up

such positions. The department then combines the offices into a county manager (assessment/appraisal) office administered by DOR and transfers the FTE to the Appraisers and Other Staff program. Two assessors and one deputy position were removed from this program and transferred to Appraisers and Other Staff.

The annual rate of increase between fiscal 1990 actual expenditures and fiscal 1992 is 5.5 percent, compared to an average increase of 5.1 percent in the state pay plan over the same period. The department reimbursed 70 percent of county-established salaries, including pay increases adopted by counties. In years when the state pay plan was frozen, the department did not include reimbursement for county pay increases.

PROPERTY ASSESSMENT DIVISION

Table 6
Appraisers and Other Staff

<u>Budget Item</u>	Actual	----Current Level----		Change
	<u>Fiscal 1990</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>	<u>1990 to 1992</u>
FTE	301.56	256.06	256.06	(45.5)
Personal Services	\$5,411,983	\$6,049,635	\$6,047,263	11.78%
Operating Expenses	603,899	648,046	649,258	7.31%
Equipment	<u>128</u>	<u>68,356</u>	<u>68,356</u>	<u>534.03%</u>
Total Costs	\$6,016,010	\$6,766,037	\$6,764,877	12.47%
Funding Source				
General Fund	\$6,016,010	\$6,766,037	\$6,764,877	12.47%

Current Level Budget

The Appraisers and Other Staff program funds county appraisal offices and the assessment staff. The annual budgets for the 1993 biennium are about 12 percent higher than fiscal 1990 actual expenditures. Personal services costs account for the majority of the increase, since fiscal 1990 vacancy savings were high due to turnover in field staff.

FTE decline a net 45.5 positions due to the reorganization of some functions: 1) 2.1 FTE were transferred into the program from the Elected Assessors and Other Staff; and 2) 47.6 FTE were transferred from the program to the Property Assessment program. These FTE included the area managers and associated administrative staff, and Helena-

based staff that administer other field functions.

Operating costs increase due to: 1) inflationary adjustments in gasoline, communications, supplies, and rent; and 2) contracted services costs to update county computer systems for tax law changes made by the 1991 legislature.

Equipment costs include replacement of six vehicles and miscellaneous office equipment each year. A lease/purchase for a telephone system is also included, but the cost is offset by reductions in communications costs. The division purchased \$49,495 of replacement vehicles in fiscal 1990; however, the cost of the purchase is recorded in the Property Assessment program.

PROPERTY ASSESSMENT DIVISION

Table 7
Property Assessment Program

<u>Budget Item</u>	<u>Actual</u>	<u>----Current Level----</u>		<u>Change</u>
	<u>Fiscal 1990</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>	<u>1990 to 1992</u>
FTE	31.4	70.65	70.65	39.25
Personal Services	\$1,757,069	\$1,785,625	\$1,784,734	1.63%
Operating Expenses	985,786	932,918	933,804	-5.36%
Equipment	104,565	23,400	8,400	-77.62%
Debt Service	<u>155,883</u>	<u>155,883</u>	<u>155,883</u>	<u>0</u>
Total Costs	\$3,003,303	\$2,897,826	\$2,882,821	-3.51%
Funding Source				
General Fund	\$3,003,303	\$2,897,826	\$2,882,821	-3.51%

Current Level Budget

The Property Assessment program funds the Helena Appraisal Section which regularly audits county offices, supports the county staff, and performs all appraisals for centrally assessed inter-county and industrial property. The administrative and support functions for PAD are also funded in this program. The five area managers are also included in this program. The department combined two functions--the Helena Appraisal Section and Division Administration, which were budgeted separately in the 1989 legislature--and reorganized the area managers and other Helena-based staff into this program from Appraisers and Other Staff program. FTE increase a net of 39.25 positions between fiscal 1990 and current level budgets. The reorganization of area managers and Helena-based staff added 47.6 FTE, but transfers and reductions of vacant FTE in current level removed 7.35 FTE from the program. The current level budget transfers 2.0 FTE to the Legal Unit in the Director's Office and 1.8 FTE to the Data Processing Division. An additional 4.55 FTE are removed from the program as the positions were vacant for more than 14 consecutive months.

The annual current level budget is about 3.5 percent lower than fiscal 1990

actual expenditures. Operating costs decrease as one-time repair and maintenance expenditures in excess of \$100,000 for multi-user computers and terminals were removed. That adjustment more than offsets inflationary adjustments and fixed cost increases.

Personal services increases only slightly. Due to staff turnover and extended vacancies for 4.55 FTE which are removed from current level, fiscal 1990 personal services costs were lower than budgeted, but comparable to the budgeted level for the 1993 biennium.

Current level equipment includes replacement of one car per year for the industrial appraisal section, replacement of six PC's per year, and purchase of an overhead projector in fiscal 1992 for use in training. In fiscal 1990, equipment purchases included \$49,495 of replacement vehicles, \$51,845 for multi-user computers, \$1,625 for office equipment, and \$1,600 for communication equipment.

Debt service pays for some of the equipment and development costs of the CAMAS system. During the 1989 legislature, the department anticipated that payments would end in fiscal 1994.

PROPERTY ASSESSMENT DIVISION

Issues

Reappraisal--CAMAS

By statute, DOR must reappraise all property in Montana every five years. Since the adoption of the Montana Constitution in 1972 and the implementation of the reappraisal cycle, two cycles have been completed and the third is to be finished by December 1992. The legislature has granted DOR a two-year extension in completing each reappraisal cycle, including the current one. The most recent extension was given in order to implement CAMAS, an on-line data base computer system. As part of the extension, the legislature required the department to provide status reports to ROC.

At the December 1990 ROC meeting, the department testified that certain aspects of the reappraisal cycle are behind schedule. While all planned field reviews of property are complete (about 30 percent of all parcels), other tasks such as review and updating of inventory sheets describing property characteristics, and development of cost tables to calculate estimated replacement cost for property are behind schedule.

One of the reasons that reappraisal is behind schedule is implementation of CAMAS. The department has installed PC's in each county appraisal office that communicate with a midrange computer in the DOR building in Helena. CAMAS was to have been installed, tested, and fully functional by November 1989. Due to equipment and software problems, the system was not fully installed until October 1990 and is not yet fully tested. DOR is just beginning to use and test the market modeling software, an important component of the system as DOR plans to use market values to determine assessed values. The last reappraisal used a replacement cost approach to determine assessed value. Several significant tasks must be accomplished in order to successfully and accurately complete the reappraisal cycle on time.

Update of Parcel Records. All residential property records were transferred to CAMAS from the former computer system. However, the information may not have accurately transferred, as the old file format is not compatible with the more detailed CAMAS file format. In order to perform accurate appraisals, files must be reviewed, compared to the property, and updated to insure that the data is accurate and all necessary elements are encoded for the system to determine the market value of the property. DOR is planning to have appraisers review the computer data and update it as necessary. The reviews may use information from the county office file, such as photographs, to update the automated system file. DOR does not plan to do field reviews of all property to ensure that the automated file is accurate. Once the system has produced assessed values, appraisers will make field reviews of some parcels to check the system generated assessed values.

Sales Data Compilation. Some areas of the state do not have a sufficient number of recent sales to provide a statistically valid sample, an essential component of the market model. The department is reviewing the possibility of combining sales in counties and towns, especially in rural areas, in order to generate sufficient sales data to use the market model.

Establishing Market Models. CAMAS is highly complex. DOR has attempted to provide adequate training to staff using the system. However, the consulting firm had not developed market modeling software in time for training sessions. The market model component is a statistical model, not readily learned or easily used without time and experimentation. The department is contracting for on-going system support with the consulting firm that developed CAMAS. This contract requires the firm to provide resident staff in Montana to oversee development of market models and use of CAMAS and to update construction cost data to 1992 costs for the cost model component of the system.

PROPERTY ASSESSMENT DIVISION

Cost of CAMAS System

During the 1989 legislature, the department estimated that CAMAS would be developed at a total cost of \$1.5 million and within the current level budget. The Executive Budget contains a modified request for \$659,562 for system costs and a supplemental appropriation in fiscal 1991 for \$220,984. The equipment, which was purchased prior to the 1991 session, will be debt financed through fiscal 1996, adding another \$338,067 to the total cost. Altogether, the unforeseen costs will add an additional \$1,218,613 in general fund costs to the original cost estimate, or an increase of just under 81 percent.

The cost increases are divided between system development and ongoing operating costs. Development costs were estimated to be about \$1.5 million, but the actual cost is now estimated to be \$2.3 million, 52 percent greater than projected two years ago (see Table 8).

DOR, through internal cost savings, purchased \$885,000 of computer equipment and software in the 1989 biennium and debt financed \$612,124 of additional PC's, software, the midrange computer, and consulting services to complete the system. Anticipated savings in mainframe computer processing costs were shifted to debt service with the expectation that the total cost would be paid by fiscal 1994.

DOR is requesting a general fund supplemental appropriation of \$220,984 in fiscal 1991 for system upgrades, high speed printers, and contracted system support. Contracted system support for fiscal 1991 is included in development costs, because if the system had been installed in 1989 as originally projected, ongoing system support would have been less costly and less necessary as staff would have had the time and training required to acquire expertise in use of market modeling. The system upgrade, and printers (which have already been purchased) will be repaid through debt finance payments (\$225,378) included in a modified request for 1993 biennium. Additionally, the modified budget request for \$659,562 general fund over the biennium allows the department

to continue the contract for CAMAS support negotiated in December 1990 (\$391,624), increases network fees to the Department of Administration (\$5,760), and increases maintenance contracts (\$36,800). The modified request also adds \$112,689 in annual debt service costs that continue through fiscal 1996 to pay off the full cost of equipment purchases.

Table 8
Estimated Cost to Develop CAMAS
Compared to Additional Amount
Requested in Executive Budget

<u>Item</u>	<u>General Fund</u>
COST ESTIMATE PRESENTED TO 1989 LEGISLATURE	
Amount Funded by DOR in 1989 Biennium	\$ 885,000
Debt Finance FY90 to FY94	<u>612,124</u>
Estimated Cost	<u>\$1,497,124</u>
COST PRESENTED TO 1991 LEGISLATURE	
FY91 Supplemental	\$ 220,984
Modified Request Biennial Cost*	225,378
Debt Finance FY94 to FY96	<u>338,067</u>
Additional Cost	<u>\$ 784,429</u>
Total CAMAS Cost Through FY96	<u>\$2,281,553</u>
Percent Actual Cost Above Estimate	52.4

*The amount of the modified request included in this table represents development costs only. The modified also includes \$434,184 of operational costs. The total cost of the modified request is \$659,562.

PROPERTY ASSESSMENT DIVISION

The second type of CAMAS cost increase is that annual operating costs will be higher than anticipated in the 1989 legislature (Table 9). The biggest component--contracted system support--is included in a modified budget request. System support costs are reduced by 50 percent January 1, 1993, after the scheduled completion of the reappraisal cycle. The network fee increase results from higher fees proposed by the Department of Administration, which are included in the Executive Budget. The equipment upgrades and printer acquisitions cause maintenance costs to rise.

Table 9
Additional Annual Operating Costs for
CAMAS in the Executive Budget Request

Item	---General Fund---	
	FY92	FY93
Network Fees	\$123,257	\$123,257
Contracted System Support	224,312	167,312
Maintenance Contracts	<u>18,400</u>	<u>18,400</u>
Annual Total	\$365,969	\$308,969
Biennial Total		\$674,938

Shortened Reappraisal Cycle. Once DOR acquires sufficient experience using CAMAS, it anticipates that use of the automated system will allow the reappraisal cycle to be shortened. A shorter cycle could replace the need for interim adjustments between cycles and could provide more accurate and timely appraisals. At the December 1990 ROC meeting, the department indicated that it may propose limiting the reappraisal cycle to three years. A budget initiative presented to OBPP in January 1990 also proposed shortening the reappraisal cycle. Although no cost estimates were provided, the narrative description of the change anticipated little fiscal impact. The legislature may want to direct DOR to propose a plan

to the 1993 legislature concerning the length of the reappraisal cycle.

House Bill 100 Language

House Bill 100 directed DOR to identify in its budget request for the 1993 biennium the costs necessary to complete the third reappraisal cycle and the costs necessary to implement the fourth reappraisal cycle. To date, DOR has provided no detailed estimates or any narrative in response to this directive.

House Bill 100 further directs DOR to submit its proposed reappraisal plan for the fourth reappraisal cycle, (scheduled to commence January 1, 1993) to the 1991 legislature. In addition to the requirements listed in Section 15-7-111, MCA, the proposed plan must include: 1) any changes proposed by the department to the property revaluation process described in Title 15, Chapter 7, MCA; 2) a list of all tasks necessary to accomplish the reappraisal; 3) the estimated time necessary for each task; and 4) the estimated resources for each year of the reappraisal cycle necessary to complete reappraisal on a timely basis. DOR indicated during the December ROC meeting that it will propose a plan to the 1991 legislature.

Executive Budget Modifications

Cyclical Reappraisal Costs

This modification would add \$271,000 general fund to complete the current reappraisal cycle by December 31, 1992. Most of these funds (\$249,000) would be spent in fiscal 1993. This modification includes \$108,000 for mailing of assessment notices, \$109,000 to print assessment forms, and \$32,000 for more staff travel. In fiscal 1992, \$22,000 is allocated to gasoline purchases.

Additional Costs for CAMAS

The Executive Budget includes \$659,562 general fund over the biennium to contract for system support, increase network fees and maintenance contracts. The request is discussed in greater detail in the "Issues" section.

MOTOR FUELS TAX DIVISION

<u>Budget Item</u>	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	24.00	24.00	22.00	22.00	-2.00
Personal Services	462,514	543,434	508,286	507,946	1.02%
Operating Expenses	140,310	145,645	146,178	142,590	.98%
Equipment	<u>7,438</u>	<u>0</u>	<u>0</u>	<u>0</u>	-100.00%
Total Program	\$610,262	\$689,079	\$654,464	\$650,536	.44%
<u>Fund Sources</u>					
State Revenue Fund	<u>610,262</u>	<u>689,079</u>	<u>654,464</u>	<u>650,536</u>	.44%
Total Funds	<u>\$610,262</u>	<u>\$689,079</u>	<u>\$654,464</u>	<u>\$650,536</u>	.44%

Program Description

The Motor Fuels Tax Division enforces compliance with motor fuel tax law and administers license taxes on gasoline and diesel fuel. It manages refund provisions of the tax laws; supervises the bonding requirements of distributors, dealers, and users to insure the proper collection of the license taxes; and issues permits and licenses to distributors, dealers, and users. The division directly collects motor fuel taxes, enforces bonding requirements, and pays refunds.

Current Level Budget

Current level increases only slightly over the 1991 biennium. Two FTE that were vacant all of fiscal 1990 are removed from current level. Operating costs rise slightly due to adjustments for inflation. The program is funded entirely from the highway special revenue account. This program is transferred to the proposed Department of Transportation in the Executive Budget request.

COMPARISON OF EXECUTIVE AND LFA CURRENT LEVELS

DEPARTMENT OF ADMINISTRATION

Budget Item	Executive Current Level		LFA Current Level		Executive Over(Under) LFA
	Fiscal 1992	Fiscal 1993	Fiscal 1992	Fiscal 1993	
FTE	318.39	322.39	315.39	319.39	3.00
Personal Services	9,688,634	9,770,008	9,539,452	9,605,152	314,038
Operating Expenses	23,601,341	24,357,483	22,002,305	22,173,601	3,782,918
Equipment	896,798	851,408	649,422	607,101	491,683
Transfers	730,906	742,291	724,764	734,685	13,748
Debt Service	4,535,647	3,988,997	4,512,207	3,965,557	46,880
Total Agency	\$39,453,326	\$39,710,187	\$37,428,150	\$37,086,096	\$4,649,267
<u>Fund Sources</u>					
General Fund	3,540,819	3,536,633	3,425,442	3,406,442	245,568
State Revenue Fund	672,105	683,490	665,963	675,884	13,748
Capital Projects Fund	730,906	742,291	724,764	734,685	13,748
Proprietary Fund	34,509,496	34,747,773	32,611,981	32,269,085	4,376,203
Total Funds	\$39,453,326	\$39,710,187	\$37,428,150	\$37,086,096	\$4,649,267

Executive Budget Comparison

The Executive Budget exceeds the LFA current level budget by \$4.65 million, primarily in operating costs. Much of the difference is due to use of different base years and different inflation factors.

Because the Executive Budget is based on the fiscal 1991 appropriation, it includes significantly more for some operating expense categories than the LFA current level budget, which uses fiscal 1990 actual expenditures as a base. The Executive Budget includes: \$1.3 million more in goods for resale; \$968,000 more for rent; \$511,000 more for contracted services; \$452,000 in utility costs; and \$126,000 more for repair and maintenance. The only operating expenditure category in which the LFA current level budget is above the Executive Budget is in other expenditures, where the fiscal 1991 appropriation is \$42,000 below actual expenditures for the biennium.

The LFA current level contains \$341,000 more inflation over the biennium, as the Executive Budget: 1) assumes utility rates (a significant expenditure in the General Services Division) will decrease in the 1993 biennium; and 2) includes a

significant deflation factor for computer processing.

The Executive Budget is \$314,038 higher in personal services than the LFA current level budget for three reasons: 1) the LFA deletes vacant positions which the Executive Budget continues (\$166,000); 2) the Executive Budget includes more overtime for the Printing and Procurement Division (\$40,000); and 3) the Executive Budget includes more per diem for the State Tax Appeal Board (\$108,000).

The Executive Budget for equipment level includes \$329,000 for multi-user computers and terminals and \$108,000 for single-user software. The LFA current level does not include this equipment as it is related to expansion of the installation of local area networks (LAN's) and should be considered as part of the modified budget request for networks included in the Executive Budget. (See the Information Services Division narrative for an expanded discussion of LAN's.)

The Executive Budget includes \$13,748 more in transfers than the LFA current level for the Architecture and Engineering Division. Funds are transferred from the capital projects fund to the state special revenue fund

DEPARTMENT OF ADMINISTRATION

that supports division operations. Because the Executive Budget for the division is higher than the LFA current level, it is reflected in the transfer operating budget, the capital projects fund, and state special revenue fund.

The Executive Budget contains \$46,880 more in debt service to fund replacement photocopy equipment not included in the LFA current level budget.

The allocation of general fund in the Executive Budget exceeds the LFA current level by \$245,568 due mainly to the use of the fiscal 1991 appropriation as the expenditure base. The budget for the State Tax Appeal Board (STAB) comprises \$172,000 of this difference. The fiscal 1991 appropriation for the program (\$435,926) exceeds the fiscal 1990 expenditures (\$312,680), mirroring the difference between the Executive Budget recommendation for STAB (\$442,734 in fiscal 1992) compared to the LFA current level budget (\$356,180).

Proprietary funds support the largest share of the expenditure difference between the Executive and LFA current level budgets. Major differences in the two budgets are discussed below.

RERS FTE

The 1989 legislature appropriated \$625,000 of general fund for the 1991 biennium to the Information Services Division for the study and development of a uniform payroll, personnel, and position system for the University System, called the Regents Employees Reporting System (RERS). Two FTE and

operating expenses were supported by the appropriation. The LFA current level does not include the FTE and adjusts operating expenses to reflect this one-time expenditure. The Executive Budget continues the FTE and associated operating expenditures, but funds the expenditures with proprietary funds.

Utilities Costs

The Executive Budget includes a reallocation of fiscal 1991 appropriation authority in the General Services Division to utilities, making the current level budget for the category \$452,000 higher than the LFA over the biennium (after adjustments for inflation). Due to higher total costs for the General Services Division, the Executive Budget general fund appropriation for the program is \$32,275 higher than the LFA current level for the biennium.

Governor-elect Program

By statute, the Department of Administration budget must include an appropriation for the Governor-elect in an election year. The LFA current level includes \$4,945 of general fund in fiscal 1993 for the program. The Executive Budget does not fund the program.

Executive Budget Modifications

In addition to the \$79.2 million current level budget for the Department of Administration for the 1993 biennium, the Executive Budget includes \$6.7 million and 4.5 FTE in modified budget requests. These budget modifications are discussed in program narratives.

DEPARTMENT OF ADMINISTRATION

<u>Budget Item</u>	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	352.59	354.59	315.39	319.39	-35.20
Personal Services	8,672,246	10,278,943	9,539,452	9,605,152	1.02%
Operating Expenses	19,778,558	21,740,833	22,002,305	22,173,601	6.40%
Equipment	1,422,819	840,879	649,422	607,101	-44.49%
Capital Outlay	3,299	0	0	0	-100.00%
Local Assistance	2,876	0	0	0	-100.00%
Transfers	1,912,873	1,781,920	724,764	734,685	-60.50%
Debt Service	3,555,409	4,555,493	4,512,207	3,965,557	4.52%
Total Agency	\$35,348,080	\$39,198,068	\$37,428,150	\$37,086,096	-.04%
<u>Fund Sources</u>					
General Fund	3,165,822	3,593,613	3,425,442	3,406,442	1.07%
State Revenue Fund	527,648	600,930	665,963	675,884	18.90%
Capital Projects Fund	544,395	629,926	724,764	734,685	24.28%
Proprietary Fund	31,110,215	34,373,599	32,611,981	32,269,085	-.92%
Total Funds	\$35,348,080	\$39,198,068	\$37,428,150	\$37,086,096	-.04%

Agency Description

The Department of Administration (DOA) provides centralized services for state agencies in the following areas: 1) accounting and financial reporting; 2) capitol complex building maintenance and capitol security; 3) state bonded indebtedness administration; 4) state treasury services; 5) insurance coverage and Tort Claims Act administration; 6) systems development, telecommunications, and data processing; 7) personnel management and labor relations; 8) purchasing and surplus property administration; 9) duplicating, mail, and messenger services; and 10) records management. The department also administers the state Long Range Building program, state employee group benefits program, and the various state retirement systems. In addition, the Board of Examiners, State Tax Appeal Board, State Compensation Mutual Insurance Fund, Public Employees' Retirement Board, and Teachers' Retirement Board are attached to the department for administrative purposes only.

Current Level Budget

The annual current level budgets for the 1993 biennium are between \$1.7 and \$2.0 million higher than fiscal 1990 actual expenditures. While annual current level budgets are higher than in fiscal 1990 actual expenditures, they are lower than the fiscal 1991 appropriation.

Current level personal services increase despite a 35.2 FTE reduction. About one third of the deleted positions were vacant throughout fiscal 1990. Because vacancy savings experienced in fiscal 1990 are not budgeted in the 1993 biennium and the fiscal 1991 pay plan increase is continued in the 1993 biennium, personal services costs are higher than fiscal 1990 actual expenditures.

Most of the FTE reductions in the department occurred due to contracting for services formerly provided by state employees (see "Privatization of Services"). Table 1 shows current level FTE changes and the reason for the deletion. Privatization of services eliminates 34.75 FTE. There are two FTE increases: 4.0 FTE authorized for the federal surplus property program are not included in either the fiscal 1990

DEPARTMENT OF ADMINISTRATION

actual expenditures or the fiscal 1991 appropriation and 4.0 FTE are added in fiscal 1991 due to legislative session workload.

Table 1
Changes to FTE
Department of Administration

<u>Change by Program</u>	<u>Current Level</u>	<u>FY92</u>	<u>FY93</u>
Fiscal 1991			
Appropriated Level	354.59	354.59	
Architecture & Eng.			
Remove Vacant FTE	(0.25)	(0.25)	
Publications and Graphics			
Leg. Session Workload	(4.00)		
Fed. Surplus Property	4.00	4.00	
Information Services Div.			
Delete University System			
P/P/P Study FTE	(2.00)	(2.00)	
Privatize Data Entry	(9.75)	(9.75)	
Remove Vacant FTE	(1.70)	(1.70)	
General Services			
Privatize:			
Janitorial Services	(15.00)	(15.00)	
Capitol Security	(10.00)	(10.00)	
State Tax Appeal Board			
Delete Vac. Cler. FTE	(0.50)	(0.50)	
Total Reductions	(39.20)	(35.20)	
Current Level FTE	315.39	319.39	

There are several major differences in operating costs between the 1991 biennium and the 1993 biennium current level. Rate increases in utilities costs and postage costs adds about \$597,000 over the biennium. The cost of commercial insurance (about \$700,000) is not included in fiscal 1990 actual expenditures due to an encoding error. The LFA current level includes annual commercial insurance costs of about \$815,000, for a total increase of \$230,000 over the biennium. Contracted services are higher in the current level

budget to fund services formerly performed by state employees (approximately \$296,000 over the biennium). Including the costs of the federal surplus property program in the current level, adds about \$330,000 to 1993 biennium costs. General liability insurance costs in the Architecture and Engineering Division (A and E) increase about \$170,00 over the biennium, due to payment of a recent claim against the division. The General Services Division expended \$128,000 less than the general appropriation for "common area space" in fiscal 1990, while the cost for such space is fully budgeted each year of the 1993 biennium.

Equipment includes replacement of worn out or depreciated items in most instances. Several of the more costly items include: \$1,000,000 for computer and communications equipment in the Information Services Division (ISD); \$140,000 for photocopy and printing equipment in the Publications and Graphics Bureau; \$30,000 for a delivery truck and \$8,000 for a pallet jack in the Property and Supply program. Current level annual equipment budgets are lower than actual expenditures in fiscal 1990, as expenditures were \$505,491 greater than the fiscal 1990 appropriation.

Capital outlay, expended in ISD for remodeling in fiscal 1990, is not continued in current level. Local assistance included reimbursements for secretarial time for county tax appeal boards in fiscal 1990, which is budgeted in contracted services in current level.

Transfers include monies moved between fund types in the department. Transfers decline in the current level as the Tort Claims Division is funded directly from the self-insurance fund, eliminating the need to transfer monies from the fund to the operations budget, and the transfer of general fund appropriation into the computer services proprietary account in ISD for the study and implementation of uniform payroll, personnel, and position system for the university system is not continued. Debt service increases to fund computer software and hardware, and replacement copying machines in several agencies in the capitol complex.

DEPARTMENT OF ADMINISTRATION

General fund supports the entire cost of the State Tax Appeal Board and the Governor-elect program and a portion of the cost for the Director's Office, the Accounting and Management Support Division, the Printing and Procurement Division, General Services Division, and the Personnel Division. General fund contributes 9.2 percent of the current level biennial funding for the department.

State special revenue includes the transfer of long-range building funds (capital projects funds) to A and E. State special revenue is about 1.8 percent of total department funds. Capital projects funds (\$58,801 annually) pay for special maintenance projects in the General Services Division, comprising about 1.9 percent of biennial funding.

Proprietary funds support all or a portion of almost every program in the department including: the Director's Office; Accounting and Management Support Division; Printing and Procurement Division; ISD; General Services Division; Central Mail; and the State Personnel Division. Proprietary

funds provide 87.1 percent of the current level biennial budget.

Reorganization

The department realigned several functions during the 1991 biennium. The Accounting and Centralized Services divisions were combined and renamed the Accounting and Management Support Division. Several bureaus, managed by the Printing and Procurement Division, were aggregated together so that the budget presentation could be made concurrently for the commonly administered bureaus. The Information Services Division reduced five bureaus to three.

Privatization of Services

House Bill 100 allows agencies to move personal services funds to the operating category to contract for equivalent services, if such services can be obtained at a lower cost. The department privatized three functions and eliminated 34.75 FTE in the 1991 biennium, at an estimated cost savings of \$516,525 over the 1993 biennium (see Table 2).

Table 2
Estimated Cost Savings due to Privatization of Services
Department of Administration

<u>Service</u>	<u>FTE Reduction</u>	<u>-----Estimated Savings-----</u>		
		<u>Fiscal 1991</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
Janitorial Services	15.00	\$ 92,102	\$ 97,644	\$ 98,500
Capitol Security	10.00	31,546	49,454	56,894
Data Entry	<u>9.75</u>	<u>72,831</u>	<u>103,659</u>	<u>110,374</u>
Total	34.75	\$196,479	\$250,757	\$265,768
1993 Biennium Total				\$516,525

House Bill 100 also directs the Legislative Audit Committee to report to the Fifty-second Legislature on potential long-term budget impacts of privatization of services. The above table reflects the analysis provided by the audit staff. The assumptions include a 2.5 percent annual increase in

personal services and rate of inflation for contracted services.

Savings are less in fiscal 1991 as two of the contracts, capitol security and data entry, were entered into after the beginning of the fiscal year and represent a partial year savings.

DEPARTMENT OF ADMINISTRATION

Janitorial services, contracted at the beginning of fiscal 1990, are lower in fiscal 1991 than in fiscal 1992 due to the 2.5 percent inflation assumptions and payment for more services during the legislative session.

The Executive Budget includes \$6.7 million in modified budget requests for the department. Each of the requests will be discussed in more detail in the respective program narratives.

Executive Budget Modifications

1993 Biennium

<u>Budget Modifications</u>	<u>FTE</u> <u>FY92</u>	<u>FTE</u> <u>FY93</u>	<u>General</u> <u>Fund</u>	<u>Other</u> <u>Funds</u>	<u>Total</u>
1) Federal Surplus Property				\$ 174,000	\$ 174,000
2) Armory Computer Upgrade				200,000	200,000
3) Public Safety Communication				139,000	139,000
4) ISD: Growth in Workload				1,000,000	1,000,000
5) ISD: Networks	3.0	3.0		1,600,423	1,600,423
6) Data Processing Disaster Backup				323,000	323,000
7) Student Long Distance	1.0	1.0		650,149	650,149
8) Telecommunications: System Upgrades				458,000	458,000
9) Postage Machines				13,000	13,000
10) Employee Newsletter				16,000	16,000
11) Combined Campaign				20,000	20,000
12) Group Insurance Benefits System				53,000	53,000
13) Professional Development Center				27,792	27,792
14) Tort Claims: Contracted Legal Services				2,000,000	2,000,000
15) Tort Claims: Additional Personnel	0.5	0.5		21,738	21,738
Total	4.5	4.5	\$ 0	\$6,696,102	\$6,696,102

DIRECTOR'S OFFICE

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	8.00	8.00	7.00	7.00	-1.00
Personal Services	200,395	308,206	272,804	272,292	7.18%
Operating Expenses	27,754	31,236	29,159	30,379	.93%
Equipment	<u>792</u>	<u>0</u>	<u>2,860</u>	<u>0</u>	<u>261.11%</u>
Total Program	\$228,941	\$339,442	\$304,823	\$302,671	6.88%
<u>Fund Sources</u>					
General Fund	177,723	276,234	241,607	239,569	6.00%
Proprietary Fund	<u>51,218</u>	<u>63,208</u>	<u>63,216</u>	<u>63,102</u>	<u>10.39%</u>
Total Funds	\$228,941	\$339,442	\$304,823	\$302,671	6.88%

Program Description

The Director's Office is responsible for overall supervision and coordination of eight divisions within the agencies and five administratively attached boards and agencies. The staff provides legal services, internal management reviews, and assistance in special projects.

Office to the Telecommunications and Network Services Bureau to manage the accounting functions for the student long distance program.

Current level annual operating costs are slightly higher than fiscal 1990 actual expenditures due to increases in fixed costs, adjustments for inflation, and the cyclical costs in fiscal 1993 associated with the legislative session. Equipment includes software upgrades.

Current Level Budget

The current level budget increases about 7 percent over the 1993 biennium. The largest increase is in personal services due to vacancy savings in fiscal 1990 and full implementation of the fiscal 1991 pay plan in the 1993 biennium. One FTE was transferred from the Director's

General fund supports the largest share of program costs. Proprietary funds reflect charges to programs within the department that receive legal services. Proprietary funds support 1.5 attorney FTE and operating costs.

GOVERNOR-ELECT PROGRAM

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	.00	.00	.00	.00	.00
Personal Services	0	0	0	3,317	.00%
Operating Expenses	0	0	0	1,628	.00%
Total Program	\$0	\$0	\$0	\$4,945	.00%
<u>Fund Sources</u>					
General Fund	0	0	0	4,945	.00%
Total Funds	\$0	\$0	\$0	\$4,945	.00%

Program Description

The Governor-elect program is to provide support to the Governor-elect and staff for the period between the general election and the inauguration. Necessary funds are to be included in the Department of Administration budget request in the regular session immediately prior to a general election when a Governor is elected (Section 2-15-221, MCA).

this program in fiscal 1989. The appropriation authorized by the 1987 legislature for this purpose was \$5,000. The next gubernatorial election will be November 1992. The legislature may wish to consider authorizing this appropriation in language in the main appropriations act or including it as a line item appropriation in the general appropriations act.

Issue

The Executive Budget does not include an appropriation for the Governor-elect program as required by statute.

Current Level Budget

The current level budget for this program includes the amount expended in

ACCOUNTING PROGRAM

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	25.00	25.00	24.50	24.50	-.50
Personal Services	598,069	755,418	718,720	717,796	6.13%
Operating Expenses	404,493	377,370	394,935	382,325	-.59%
Equipment	<u>7,029</u>	<u>0</u>	<u>9,760</u>	<u>0</u>	<u>38.85%</u>
Total Program	\$1,009,591	\$1,132,788	\$1,123,415	\$1,100,121	3.79%
<u>Fund Sources</u>					
General Fund	980,731	1,100,029	1,093,011	1,069,755	3.94%
Proprietary Fund	<u>28,860</u>	<u>32,759</u>	<u>30,404</u>	<u>30,366</u>	<u>-1.38%</u>
Total Funds	\$1,009,591	\$1,132,788	\$1,123,415	\$1,100,121	3.79%

Program Description

The Accounting and Management Support Division is organized into two bureaus and one unit. The Accounting Bureau maintains the Statewide Budgeting and Accounting System, establishes state accounting policies and procedures, and prepares the state Comprehensive Annual Financial Report. The Management Support Bureau, formerly the Centralized Services Division, was combined with the Accounting Division in fiscal 1990. The bureau provides financial, budgeting, and accounting support services to all department programs and manages the State Treasury. The Personnel Unit administers personnel and payroll functions for the department.

crease due to vacancies in fiscal 1990, staff turnover, and full implementation of the 1991 pay plan. Annual personal services in the 1993 biennium are lower than the fiscal 1991 appropriation due to the transfer of 0.5 FTE to the Central Mail Bureau and due to staff turnover. Operating costs increase due to inflation, fixed costs, and workload adjustments.

Equipment includes software upgrades. General fund supports all division costs except 1.0 FTE and operating costs which are funded by investment proprietary funds.

The division was expanded during the 1991 biennium due to a reorganization that added Centralized Services Division and the Personnel Unit. The new structure includes two bureaus (see Table 3).

Current Level Budget

The 1993 biennium current level budget is about 4 percent higher than the 1991 biennium. Personal services costs in-

ACCOUNTING PROGRAM

Table 3
Comparison of Accounting and Management and Support

<u>Program and Funding</u>	<u>Fiscal 1990</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>	<u>Change from 1990 to 1992</u>
Accounting Bureau				
FTE	11.0	10.0	10.0	-1.0
Personal Services	\$259,073	\$315,032	\$314,616	21.60%
Operating	349,157	338,039	325,275	-3.18%
Equipment	<u>772</u>	<u>9,760</u>	<u>0</u>	<u>1164.25%</u>
Subtotal	\$609,002	\$662,831	\$639,891	8.84%
General Fund	\$609,002	\$662,831	\$639,891	8.84%
Management Support/Personnel				
FTE	14.0	14.5	14.5	0.5
Personal Services	\$338,996	\$403,688	\$403,180	19.08%
Operating	55,336	56,896	57,050	2.82%
Equipment	<u>6,257</u>	<u>0</u>	<u>0</u>	<u>-100.00%</u>
Subtotal	\$400,589	\$460,584	\$460,230	14.98%
General Fund	\$371,729	\$430,180	\$429,864	15.72%
Proprietary	<u>28,860</u>	<u>30,404</u>	<u>30,366</u>	<u>5.35%</u>
Total	<u>\$400,589</u>	<u>\$460,584</u>	<u>\$460,230</u>	<u>14.98%</u>
Total Division				
FTE	25.0	24.5	24.5	-0.5
Personal Services	\$598,069	\$718,720	\$717,796	20.17%
Operating	404,493	394,935	382,325	-2.36%
Equipment	<u>7,029</u>	<u>9,760</u>	<u>0</u>	<u>38.85%</u>
Total	<u>\$1,009,591</u>	<u>\$1,123,415</u>	<u>\$1,100,121</u>	<u>11.27%</u>
General Fund	\$ 980,731	\$1,093,011	\$1,069,755	11.45%
Proprietary	<u>28,860</u>	<u>30,404</u>	<u>30,366</u>	<u>5.35%</u>
Total	<u>\$1,009,591</u>	<u>\$1,123,415</u>	<u>\$1,100,121</u>	<u>11.27%</u>

The Accounting Bureau is funded entirely from general fund. Personal services increase due to vacancies in fiscal 1990. One FTE was divided into two 0.5 FTE, with one half-time position transferred to the Central Mail Bureau and the other to Management and Support Bureau. Operating costs decline due to

rate decreases in mainframe computer processing costs. This reduction offset increases in audit fees, rent, inflationary adjustments, and contracted services to update the Statewide Cost Allocation Plan. Equipment includes computer software upgrades.

ACCOUNTING PROGRAM

General fund supports almost all costs of the Management and Support Bureau, formerly the Centralized Services Division. Investment proprietary funds support 1.0 FTE and operating costs. Bureau FTE increase by 0.5 FTE due to a transfer from the Accounting Bureau.

Inflationary adjustments and increases in audit fees, rent, and messenger services account for the difference in current level operating costs compared to fiscal 1990 actual costs. Equipment includes computer software upgrades.

ARCHITECTURE AND ENGINEERING PROGRAM

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	15.25	15.25	15.00	15.00	-.25
Personal Services	423,569	493,256	473,108	473,371	3.23%
Operating Expenses	100,580	105,175	190,350	200,013	89.72%
Equipment	3,500	2,500	2,505	2,500	-16.58%
Transfers	485,625	571,124	665,963	675,884	26.98%
Total Program	\$1,013,274	\$1,172,055	\$1,331,926	\$1,351,768	22.81%
<u>Fund Sources</u>					
State Revenue Fund	527,648	600,930	665,963	675,884	18.90%
Capital Projects Fund	485,626	571,125	665,963	675,884	26.98%
Total Funds	\$1,013,274	\$1,172,055	\$1,331,926	\$1,351,768	22.81%

Program Description

The Architecture and Engineering Division manages remodeling and construction of state buildings. Functions include overseeing the architect/engineer interview and selection process; planning both new and remodeling projects; administering and coordinating plan reviews; administering contracts with architects, engineers, and contractors; advertising, bidding, and awarding construction contracts; disbursing building construction payments; and providing design services for small projects. The division also formulates a long-range building plan for legislative consideration each session.

Current Level Budget

The current level budget is almost 23 percent higher than the 1991 biennium. Personal services costs increase due to vacancies in fiscal 1990 and full implementation of the 1991 biennium pay plan. A 0.25 FTE was removed from current level as it had been vacant for 14 consecutive months.

Insurance premium costs account for almost all of the operating cost increase. In 1989, the state lost a lawsuit against the program. Due to the loss, program insurance costs increase \$82,367 in fiscal 1992 and \$87,452 in

fiscal 1993 above the actual payment of \$1,142 in fiscal year 1990. Premiums are expected to remain near those levels for about five years.

Other operating cost increases include janitorial services, legal services from the Director's Office, fixed costs, and printing to produce the Long-Range Building program in fiscal 1993. Equipment includes a personal computer and other office equipment.

Transfers include the cash moved from the long-range building cash account to the state special revenue fund that pays operating and personal services costs. The fiscal 1991 appropriation is not equally divided between state special revenue and the capital projects fund, as the executive did not increase the allocation from the long-range building cash account to fund the pay plan. Rather, only the operating account was increased.

The program is funded from the long-range building cash account. This account receives 29.11 percent of the cigarette tax, interest on bond proceeds, and the supervisory fees which the division collects for assisting with building projects other than those authorized as part of the Long-Range Building program. The amount needed to operate the division is transferred from the long-range building cash account to a separate account in the state special revenue account.

PROCUREMENT & PRINTING DIVISION

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	55.50	59.50	58.50	62.50	3.00
Personal Services	1,195,584	1,497,291	1,486,839	1,552,673	12.87%
Operating Expenses	7,356,566	8,154,713	7,883,839	7,895,041	1.73%
Equipment	115,105	76,699	111,573	76,596	-1.90%
Debt Service	27,632	146,374	103,088	103,088	18.49%
Total Program	\$8,694,887	\$9,875,077	\$9,585,339	\$9,627,398	3.46%
<u>Fund Sources</u>					
General Fund	381,427	435,967	428,406	428,729	4.86%
Proprietary Fund	8,313,460	9,439,110	9,156,933	9,198,669	3.40%
Total Funds	\$8,694,887	\$9,875,077	\$9,585,339	\$9,627,398	3.46%

Program Description

The Procurement and Printing Division has three bureaus that manage specific division activities. The Publications and Graphics Bureau provides printing, duplicating, computerized typography, layout and design, graphic and illustrative art, forms design, photo-reprographics, binding and quick copy, and photocopier pool services for state agencies. The Property and Supply Bureau purchases, stocks, and sells office supplies, paper, janitorial supplies, and packaged computer software to state agencies and administers the sale of state and federal surplus property no longer needed by state agencies. The Purchasing Bureau manages the centralized purchasing for state agencies. The bureau investigates possible sources for products, determines alternate product possibilities, prepares specifications, and enforces the terms and conditions outlined in purchase orders. The bureau provides technical assistance to and ensures compliance with purchasing law and rule for agencies with delegated purchasing authority.

Current Level Budget

The 1993 biennium budget is 3.5 percent higher than the 1991 biennium. Most of the increase is due to the expanded federal Surplus Property program

authorized by House Bills 691 and 772 passed by the 1989 legislature. The expenditures and authority for the expanded program are not reflected in the 1990 and 1991 columns. When the program is included, the current level budget actually increases only 1.3 percent from the 1993 to the 1991 biennium.

FTE comparisons must be made between fiscal 1990 and 1992, and between fiscal 1991 and 1993, since a cyclical adjustment adds 4.0 FTE in fiscal 1991 and 1993 to manage the printing workload generated by legislative sessions. The net change between comparable fiscal years is 3.0 FTE, as 1.0 FTE is transferred from the Property and Supply Bureau to the Information Services Division to manage the term contract for computer equipment and the expanded federal surplus property program adds 4.0 FTE.

Personal services costs increase due to the net increase of 3.0 FTE, upgrades for some positions, vacancies in fiscal 1990, and full implementation of the fiscal 1991 pay plan. Operating costs increase due to adjustments for inflation, fixed costs, and some workload changes. Equipment includes replacement printing and duplicating equipment, a PC for desktop publishing, software maintenance fees, a replacement delivery truck, and a replacement pallet jack. Debt service increases to fund

PROCUREMENT & PRINTING DIVISION

replacement of 12 copiers located throughout the capitol complex.

The following tables (4, 5, 6, and 7) include budget and expenditure detail for the three bureaus in the Procurement and Printing Division. The fiscal 1992

and 1993 data sum to the overall division current level budget. The fiscal 1990 expenditures will exceed the amount shown in the division table, as the table does not include 1991 biennium activity for the expanded federal surplus property program.

Table 4
Publications and Graphics Bureau

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>----Current Level----</u> <u>Fiscal 1992 Fiscal 1993</u>		<u>Change 1990 to 1992</u>
FTE	26.83	26.33	30.33	-0.50
Personal Services	\$ 588,218	\$ 649,852	\$ 716,820	10.48%
Operating Expenses	4,450,463	4,513,584	4,513,486	1.42%
Equipment	107,218	71,573	74,596	-33.25%
Debt Service	<u>27,632</u>	<u>103,088</u>	<u>103,088</u>	<u>273.07%</u>
Total Costs	\$5,173,531	\$5,338,097	\$5,407,990	3.18%
Funding Source				
Proprietary Funds	\$5,173,537	\$5,338,097	\$5,407,990	3.18%

The Publications and Graphics Bureau budget increases 3.2 percent from fiscal 1990 to fiscal 1992. FTE are lower as a 0.5 FTE programmer analyst was transferred to the Property and Supply Bureau. Personal services rise in spite of fewer FTE because of vacancies in fiscal 1990 and full implementation of the fiscal 1991 pay plan. Operating

expenses increase slightly, largely due to adjustments for inflation and fixed costs. Equipment includes replacement of a hot glue binder, two single-headed duplicators in fiscal 1992, and a duplicating system in fiscal 1993. Debt service includes the costs of replacing 12 copiers located in various state agencies.

Table 5
Property and Supply Bureau

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>----Current Level----</u> <u>Fiscal 1992 Fiscal 1993</u>		<u>Change 1990 to 1992</u>
FTE	16.34	15.84	15.84	-0.50
Personal Services	\$ 326,247	\$ 412,421	\$ 411,968	26.41%
Operating Expenses	2,825,267	3,103,809	3,115,290	9.86%
Equipment	<u>233</u>	<u>38,000</u>	<u>0</u>	<u>16209.01%</u>
Total Costs	\$3,151,747	\$3,554,230	\$3,527,258	12.77%
Funding Source				
Proprietary Funds	\$3,151,747	\$3,554,230	\$2,327,258	12.77%

PROCUREMENT & PRINTING DIVISION

The Property and Supply Bureau budget increases about 13 percent from fiscal 1990 to fiscal 1992. The net decline of 0.5 FTE results from the transfer out of a 1.0 FTE warehouse worker to ISD to manage the computer term contract and the transfer in of 0.5 FTE programmer analyst from the Publications and Graphic Bureau. The transfers resulted in a net decline of about \$2,000 in personal services costs, which is offset by upgrades for several positions that

assume new duties for administration of the federal surplus property program. Personal services also increase due to vacancies in fiscal 1990 and full implementation of the 1991 pay plan.

Operating costs increase largely due to inflationary cost adjustments (\$275,000). Equipment includes replacement of a delivery truck and pallet jack.

Table 6
Federal Surplus Property Program
Property and Supply Bureau

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>----Current Level----</u> <u>Fiscal 1992 Fiscal 1993</u>		<u>Change 1991 to 1992</u>
FTE	4.00	4.00	4.00	0.00
Personal Services	\$ 54,535	\$ 98,287	\$ 98,063	80.23%
Operating Expenses	27,116	166,319	165,358	513.36%
Equipment	8,159	0	0	-100.00%
Capital Outlay	<u>25,962</u>	<u>0</u>	<u>0</u>	<u>-100.00%</u>
Total Costs	\$115,772	\$264,606	\$263,421	128.56%
Funding Source				
Proprietary Funds	\$115,772	\$264,606	\$263,421	128.56%

House Bill 691, passed by the 1989 legislature, permitted the Governor to designate an agency to administer a federal surplus property program. House Bill 772 provided the appropriation to run the program. Previously, the department had run a "stockless" federal surplus property program in which the department would research the availability and location of federal property and interested purchasers would contact sellers and arrange to transport articles to Montana. The expanded functions, allowed under House Bill 691, were allocated to DOA by the Governor and assigned to the Property and Supply Bureau. An appropriation of \$500,000 was made to fund this activity during the 1991 biennium.

The program began expanding operations in fiscal 1990. About 22 percent of the first year costs were in capital outlay to remodel and expand existing space to accommodate additional staff.

The LFA current level budget is based on annualized program expenses incurred through November 1990. Revenue collections through November were \$122,000, while total program expenses were \$111,766. Table 6 shows differences between the fiscal 1992 budget and the fiscal 1990 expenditures to compare increases in program expenditures. The legislature may want to review the most recent revenue and cost experience of the program.

PROCUREMENT & PRINTING DIVISION

Table 7
Purchasing Bureau

<u>Budget Item</u>	<u>Actual</u>	<u>----Current Level----</u>		<u>Change</u>
	<u>Fiscal 1990</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>	<u>1990 to 1992</u>
FTE	12.33	12.33	12.33	0.00
Personal Services	\$281,119	\$326,279	\$325,822	16.06%
Operating Expenses	92,654	100,127	100,907	8.07%
Equipment	7,654	2,000	2,000	-73.87%
Debt Service	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>
Total Costs	\$381,427	\$428,406	\$428,729	12.32%
Funding Source				
General Fund	\$381,427	\$428,406	\$428,729	12.32%

The Purchasing Bureau is the only function in the division supported by general fund. Personal services costs increase due to vacancies in fiscal 1990 and full implementation of the fiscal 1991 pay plan in the 1993 biennium. Operating costs rise due to adjustments for inflation and fixed costs. Travel and printing costs are increased to allow the staff to assist agencies in improving purchasing and procurement functions not performed by the bureau. Equipment includes ongoing license fees to maintain system software purchased in fiscal 1990.

Executive Budget Modifications

House Bill 772

This modified request for \$174,000 in proprietary authority would provide additional services in the federal surplus property program. Most of the funds would be expended for consulting services to provide information about this program to school districts and local government and fund equipment evaluations, software changes to the program computer system, and merchandising publications and equipment.

INFORMATION SERVICES DIVISION

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	134.59	132.59	121.14	121.14	-11.45
Personal Services	3,802,335	4,131,014	4,019,630	4,016,383	1.29%
Operating Expenses	6,929,302	7,246,705	7,111,844	7,198,611	.95%
Equipment	1,266,978	752,855	505,179	520,179	-49.24%
Capital Outlay	1,761	0	0	0	-100.00%
Transfers	197,912	0	0	0	-100.00%
Debt Service	3,525,970	4,409,119	4,409,119	3,862,469	4.24%
Total Program	\$15,724,258	\$16,539,693	\$16,045,772	\$15,597,642	-1.92%
<u>Fund Sources</u>					
General Fund	197,912	0	0	0	-100.00%
Proprietary Fund	15,526,346	16,539,693	16,045,772	15,597,642	-1.32%
Total Funds	\$15,724,258	\$16,539,693	\$16,045,772	\$15,597,642	-1.92%

Program Description

The Information Services Division manages central data processing services and telephone communications for state government. Centralized data processing services include: 1) central mainframe computer processing; 2) shared statewide data communications network services accessing the central mainframe; 3) data processing planning, coordination, and control of equipment and software acquisitions; 4) design, development, and continuous maintenance support of data processing applications; 5) data processing training; 6) microcomputer and office automation support and consultation; and 7) disaster recovery facilities for critical data processing applications. Telecommunications services include: 1) local and long distance telephone networking; 2) design and development of telephone equipment, networking applications, and other telecommunications needs; 3) management of the statewide 911 emergency telephone number program; and 4) radio frequency coordinating liaison with local government. The division also manages record storage and microfilming services.

Current Level Budget

The current level budget decreases slightly compared to the 1991 biennium budget. The equipment category shows the biggest decrease. Fiscal 1990 expenditures were about \$480,000 higher than the fiscal 1990 equipment appropriation. Part of the agency current level equipment request included equipment and software related to installation and expansion of network services. The LFA current level budget does not include such equipment since it is related to a modified budget request funded in the Executive Budget.

Personal services costs increase slightly, largely due to vacancy savings in fiscal 1990, full implementation of the fiscal 1991 pay plan, and grade changes authorized to recruit and retain staff. FTE decline by a net 11.45 positions. Two FTE were transferred to ISD from other programs in the department; 11.45 FTE were eliminated due to privatization of data entry services and extended vacancies; and 2.0 FTE were removed that were supported by a general fund appropriation to study and implement a uniform payroll, personnel, and position (P/P/P) system for the university system.

The operating budget rises slightly due to adjustments for inflation, fixed cost

INFORMATION SERVICES DIVISION

increases, and contracted services increases to support the data entry contract. Equipment includes replacement of various computer and telecommunications equipment.

Capital outlay represents a one-time remodeling cost. Transfers includes the transfer of general fund authority for the P/P/P project. Generally accepted accounting principles require the transfer to accurately record such expenditures in proprietary accounts.

Debt service increases to fund equipment and software acquisitions in fiscal 1990. Payments decline in fiscal 1993 due to completion of payments to the reserve account for telephone equipment lease participation certificates.

Proprietary funds support the operation of all programs in ISD. The general fund represents the amount expended in fiscal 1990 from a one-time biennial appropriation of \$625,000 to implement the uniform university P/P/P system.

The division reorganized in fiscal 1990. All computer operations were combined into one program for budgeting purposes, with the exception of network services which combined with the telecommunications function in the newly renamed Telecommunications and Network Services Bureau. The following tables (8, 9, and 10) show the budget detail for the three bureaus of the division. Together, the bureau budgets equal the amounts shown in the total division budget.

Table 8
Computer Services Bureau

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>----Current Level----</u> <u>Fiscal 1992</u>	<u>Fiscal 1993</u>	<u>Change 1990 to 1992</u>
FTE	115.95	100.50	100.50	-15.45
Personal Services	\$3,167,058	\$3,317,073	\$3,314,538	4.74%
Operating Expenses	2,165,619	2,310,344	2,313,688	6.68%
Equipment	926,819	295,179	310,179	-68.15%
Transfers	197,912	0	0	-100.00%
Debt Service	<u>1,439,075</u>	<u>1,503,166</u>	<u>1,503,166</u>	<u>4.45%</u>
Total Costs	<u>\$7,896,483</u>	<u>\$7,425,762</u>	<u>\$7,441,571</u>	<u>-5.96%</u>
Funding Sources				
General Fund	\$197,912	\$0	\$0	-100.00%
Proprietary Funds	<u>7,698,571</u>	<u>7,425,762</u>	<u>7,441,571</u>	<u>-3.54%</u>
Total Funds	<u>\$7,896,483</u>	<u>\$7,425,762</u>	<u>\$7,441,571</u>	<u>-5.96%</u>

The Computer Services Bureau budget declines by about 6 percent between fiscal 1990 and 1992 due to decreases in equipment and transfers. Equipment purchases decline as the ongoing current level equipment is less than that purchased in fiscal 1990. Fiscal 1990 transfers included a biennial appropriation of general fund (\$625,000) to study and implement a uniform P/P/P system for the university system called

the regents employee reporting system (RERS). Generally accepted accounting principles direct the transfer to properly record such expenditures.

FTE decline by a net of 15.45 positions. Two of those positions are removed from the appropriated level of FTE in fiscal 1991 as SBAS on-line edit and entry reduced data entry workload. One position was transferred to the bureau

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from the Purchasing Bureau to manage the term computer purchasing contract. The offsetting 14.45 FTE reduction includes: 11.45 data entry FTE are removed due to privatization of the service and extended vacancies; 2.0 FTE are removed as the appropriation for the study and implementation of RERS ended in 1991; and 1.0 FTE was transferred to the Telecommunications and Network Support Bureau. Data entry functions were privatized by the department (see "Issues" section of agency narrative). Continuation of RERS is discussed in the University System budget section.

Personal services costs increase despite the reduction in FTE due to extended vacancies for some positions in fiscal 1990, turnover in positions, and pay increases authorized to recruit and retain staff. Operating costs increase to accommodate the data entry contract (\$151,800 per year), increases in the

maintenance contract for multi-user computers and terminals; adjustments for inflation, and increases in fixed costs. Some operating costs were decreased to reflect lower staffing levels due to privatization of data entry, but those decreases are offset by other cost increases.

Debt service funds new and existing equipment acquisitions. Equipment includes upgrades for front-end processors, disk drives, magnetic tape drives, software, and a controller for the Armory computer (unrelated to the modified budget request). The current level agency budget request included \$413,400 for network software, modems, and network components. The LFA current level budget does not include this equipment as it should be considered in conjunction with the modified budget request for network fees (see "Issue" section).

Table 9
Telecommunications and Network Services Bureau

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>----Current Level----</u>		<u>Change 1990 to 1992</u>
		<u>Fiscal 1992</u>	<u>Fiscal 1993</u>	
FTE	16.64	18.64	18.64	2.00
Personal Services	\$ 562,300	\$ 626,586	\$ 625,989	11.43%
Operating Expenses	4,757,126	4,798,865	4,881,033	0.88%
Equipment	340,159	210,000	210,000	-38.26%
Capital Outlay	1,761	0	0	-100.00%
Debt Service	<u>2,086,895</u>	<u>2,905,953</u>	<u>2,359,303</u>	<u>40.19%</u>
Total Costs	<u>\$7,748,241</u>	<u>\$8,541,404</u>	<u>\$8,076,325</u>	<u>10.44%</u>
Funding Source				
Proprietary Funds	\$7,748,241	\$8,541,404	\$8,076,325	10.44%

The division reorganization moved a new function to this bureau--network services (see "Issue" section). Personal services increase as there are 2.0 FTE added to the program: 1.0 FTE was transferred from the Director's Office to handle the accounting functions for the student long distance service and 1.0 FTE was moved from the Computer Services Bureau. Operating

costs increase slightly due to inflation and fixed cost increases. The equipment budget allows replacement of communication and computer equipment. Debt service includes payments for telephone and computer equipment which decline in fiscal 1993 due to completion of final payments to the reserve account for telephone equipment lease participation certificates.

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Table 10
Emergency 911

<u>Budget Item and Fund Estimates</u>	<u>Actual Fiscal 1990</u>	<u>----Current Level----</u> <u>Fiscal 1992</u>	<u>Fiscal 1993</u>	<u>Change 1990 to 1992</u>
FTE	2.00	2.00	2.00	0.00
Personal Services	\$72,977	\$75,971	\$75,856	4.10%
Operating Expenses	<u>6,557</u>	<u>2,635</u>	<u>3,890</u>	<u>-59.81%</u>
Total Costs	\$79,534	\$78,606	\$79,746	-1.17%
Funding Source				
Proprietary Funds	\$79,534	\$78,606	\$79,746	-1.17%
Total 25 Cent Tax Revenue	\$1,090,964	\$1,122,942	\$1,139,227	2.93%
Seven Percent of Total Revenue	\$76,367	\$78,606	\$79,746	2.93%

The Emergency 911 program manages the statewide emergency telephone number program. The program is funded from a portion of the monthly 25 cent fee assessed on telephone subscribers across the state. The program may expend 7.0 percent of the quarterly fee collections or actual expenses, whichever is less, to administer this activity. For budgeting purposes, it is assumed that revenue is generated in equal quarterly installments, although that has not always happened. Current level assumes that the assessment will generate \$1,122,942 in fiscal 1992 and \$1,139,227 in fiscal 1993. Seven percent of that amount is \$78,606 and \$79,746 respectively.

The fiscal 1992 budget is 1.1 percent lower than the fiscal 1990 actual expenditures in order to stay within the seven percent limit. The program expended \$3,167 more than the seven percent allocation of the phone tax revenue in fiscal 1990. The program used funds from the computer services operation to cover the shortfall.

Issue

Expansion of Network Services

The Executive Budget includes a modified request of \$1.6 million in proprietary authority and 3.0 FTE over the biennium (in addition to current level services of about \$1 million) to fund the purchase, installation, and support of local area networks (LAN's) and to install a buried cable in the capitol complex to link some agencies to the mainframe computer. A LAN is a combination of hardware, software, and wiring connections that allows a number of personal computers to share software and data and to communicate with each other. Depending on the wiring configuration, typically up to 72 terminals or PC's can be reside on one LAN. A LAN can be linked to the statewide data network (SNA), thereby providing each LAN terminal with access to mainframe software and processing capabilities. LAN's can also be hooked together, allowing agencies or divisions and bureaus within an agency to share software applications and data.

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In order to fund expanded services and to make the network services self-supporting, the Executive Budget includes \$2.8 million generated by charges to agencies. The proposed changes are \$40 per PC per month and \$30 per "dumb" terminal for every work station in every agency, regardless of whether the stations are networked or can ever be networked. Two rate reductions, totalling \$1.5 million, offset about 53 percent of the network rate increase: 1) a 12 percent reduction in mainframe processing charges; and 2) discontinuation of the optional subscription fee of \$20 per month per PC for support services and reduced training costs. Table 11 shows the estimated cost increases and rate reductions included in the current level Executive Budget.

capability to network PC's at a lower cost.

In order to encourage the installation of standard software and hardware in all state agencies, ISD decided to subsidize the cost of network components for agencies. Also, the division did not want to implement a new rate structure as agency budgets were already in place. The division believes that it is less expensive in the long run to install compatible hardware and software initially, than to try to replace and standardize LAN components after agencies have installed a variety of different LAN's which are not compatible. ISD equates the decision to encourage standardization of LAN's to installation of the same phone system in all state agencies.

The statewide LAN standard selected by ISD was more expensive than some of the other options being considered by agencies. The pricing policy evolved throughout the biennium, with ISD gradually increasing installation and ongoing service charges by requiring agencies to pay costs established in the ISD 1991 biennium rate structure for installation services, SNA charges, and subscription fees. However, ISD still funds the capital investment, on average \$620 per machine for terminals connected to LAN's and \$920 for terminals hooked to LAN's and the SNA. Agencies with LAN's pay \$20 per month per machine to ISD and pay other monthly charges if the LAN's are connected to the SNA. Agencies also pay actual installation charges which average \$150 per machine to cover the wiring costs.

ISD debt-financed about \$1.1 million of LAN components from February 1989 through January 1990. The term of the debt was scheduled to coincide with the depreciated life of such components. During fiscal 1990, the amount of revenue collected by network services was inadequate to cover the cost of the operation (see Table 12), according to data prepared by the division. Although network services generated the second highest amount of revenue deposited in the computer services proprietary account, it still needed a subsidy of

Table 11
Increases and Decreases Included in the
Current Level Executive Budget to
Fund Network Services

<u>Cost</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
Increases		
Network Fees	\$1,429,859	\$1,432,058
Decreases		
Computer Processing	\$524,585	\$524,585
Subscription Fees	<u>228,532</u>	<u>228,091</u>
Subtotal	\$753,117	\$752,676
Overall Net Increase	\$676,742	\$679,382
Biennial Increase		\$1,356,124

During the 1991 biennium, the division experienced a dramatic increase in the number of agencies requesting installation and maintenance of LAN's and connection of LAN's to the statewide network (SNA). In addition, several inexpensive LAN hardware packages came on the market, allowing agencies the

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\$871,625 from computer processing income to break even.

Table 12
Comparison of Income and Expenses for Computer Services Account
Information Services Division
Fiscal 1990

<u>Service Type</u>	<u>Income by Service</u>	<u>Expense by Service</u>	<u>Income Over (Under) Expenses</u>	<u>Percent Income-Expense Over or (Under)</u>	<u>Percent of Total Income</u>
Computer Processing	\$4,608,414	\$3,500,761	\$1,107,653	31.64	59.02
Network Services	991,856	1,863,481	(871,625)	(46.77)	12.70
Systems Development	649,485	732,262	(82,777)	(11.30)	8.32
Justice Computer (Armory Computer)	523,002	530,224	(7,222)	(1.36)	6.70
Subscriptions	237,971	345,539	(107,568)	(31.13)	3.05
Data Entry	224,554	286,259	(61,705)	(21.56)	2.88
Computer Generated					
Microfilm	144,619	101,467	43,152	42.53	1.85
Conventional Microfilm	135,167	142,918	(7,751)	(5.42)	1.73
Records Storage	121,399	111,405	9,994	8.97	1.55
Training	90,884	138,303	(47,419)	(34.29)	1.16
Laser Print	29,970	35,148	(5,178)	(14.73)	0.38
Pool Equipment	29,135	51,664	(22,529)	(43.61)	0.37
Job Submission to the Mainframe Computer	21,498	49,357	(27,859)	(56.44)	0.28
Other	(205,909)	(2,138)	(203,771)		
Total	\$7,602,045	\$7,886,650	\$(284,605)	(3.61)	100.00

Note: Information prepared by ISD.

House Bill 100 directs the department to develop a cost recovery plan. The intent of the legislature is that the cost of each service should be fully recovered through the rate charged for each service. As shown in table 12, only three services funded from the computer services proprietary account fully recovered costs in fiscal 1990. The legislature may wish to direct the division to prepare documentation for review regarding the adequacy of each service rate, the amount of revenue expected to be generated, and the proposed budget for the relevant service. Preliminary ISD estimates of network fee revenue shows that computer processing income is expected to continue to fund about \$600,000 or 20 percent of network expenditures in

fiscal 1992 and about \$121,000 or four percent of network costs in fiscal 1993.

Executive Budget Modifications

Armory Computer Upgrade

This Executive Budget includes \$200,000 in proprietary funds over the biennium to upgrade the computer which runs programs for the Department of Justice. Two systems are run on the computer--the Criminal Justice Information Network and the Montana Motor Vehicle Registration System. The processing workload is growing at a rate expected to exceed the system capabilities. The modified budget would fund the purchase of a

INFORMATION SERVICES DIVISION

processor upgrade, additional magnetic storage media, and related software. A separate computer is dedicated to criminal justice support functions because the system must be on-line 24 hours a day. The state mainframe backs up the Armory computer when the computer is not operating.

Public Safety Communication

The modified budget request would implement recommendations of the Public Safety Communications Task Force to acquire portable emergency microwave, satellite links, and communications-equipped vans; develop coordinated radio systems for state and local government; and continue mutual aid frequency use. The biennial cost of \$139,000 in proprietary funds is supported by fees that will be assessed against each radio used for public safety by state agencies.

ISD: Growth in Workload

Over the past nine years, the computer center has experienced an average annual compound growth in mainframe processing workload in excess of 17 percent. The department expects such growth to continue and the Executive Budget includes an additional \$1 million in proprietary funds to cover the corresponding increases in operating expenses. Most of the additional authority (\$575,000) is budgeted for equipment purchases including software. However, maintenance and supply costs are also included in the request.

ISD: Networks

This modification, discussed earlier as a budget issue, would add 3.0 FTE and \$1.6 million in proprietary funds to continue implementation and support of statewide network connectivity to the mainframe computer. Equipment purchases comprise the largest share of the budget (\$1.1 million). A buried fiber optic cable will be laid throughout the capitol area complex in Helena to link most state buildings to the network. Other planned purchases include equipment to connect agencies to the statewide network and communication software components for PC's.

The proposal is financed through a new rate structure that replaces subscription rates funded in 1991 biennium appropriations. Previously, ISD charged agencies \$20 per PC per month or negotiated a flat rate for PC support services and reduced training costs. The new network rate, included in the executive request for all agencies, is \$40 per month per PC and \$30 per month per work station terminal.

Student Long Distance

In the 1990 fall quarter/semester, the university system, in conjunction with the department, initiated a program offering long-distance telephone services to students living in dormitory housing. Students use the state phone system for long-distance calls, billed at state rates. The Executive Budget includes \$650,149 in proprietary funds and 1.0 FTE to administer the software system that collects, costs, and distributes invoices for long-distance usage. The Executive Budget request deflates long-distance telephone rates for state agencies 3 percent in fiscal 1992 and 1993 as a result of increased system usage by students. In fiscal 1990, the department transferred 1.0 FTE to the Telecommunications Bureau to implement this program. Both the Executive Budget and LFA current level continue this FTE transfer, and in addition, the Executive Budget adds an additional FTE to manage the student long-distance program.

Telephone System Upgrades

The department proposes to continue to upgrade and maintain telephone switching systems. The request would add \$458,000 in proprietary funds for equipment purchases in the coming biennium. Upgrades are proposed for the Department of Highways, the Comprehensive State Mutual Insurance Fund, the Armory, the Department of State Lands office in Missoula, Montana State Prison, and Western Montana College.

Data Processing Disaster Backup

The Executive Budget includes \$323,000 in proprietary funds over the biennium

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to purchase offsite processing capabilities in the event that a disaster disables the state mainframe computer. The backup capability is required by federal standards for TEAMS, an on-line eligibility determination system being installed in all counties

during the 1993 biennium by the Department of Social and Rehabilitation Services. TEAMS will allow counties' workers to access the programs on the state mainframe computer via local terminals to determine public assistance benefits eligibility.

GENERAL SERVICES PROGRAM

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	45.00	45.00	20.00	20.00	-25.00
Personal Services	720,738	1,071,537	614,340	616,723	-31.31%
Operating Expenses	2,657,388	2,672,626	2,986,408	3,000,333	12.32%
Equipment	7,174	6,000	6,000	5,184	-15.11%
Capital Outlay	1,538	0	0	0	-100.00%
Transfers	58,769	58,801	58,801	58,801	.03%
Total Program	\$3,445,607	\$3,808,964	\$3,665,549	\$3,681,041	1.27%
<u>Fund Sources</u>					
General Fund	255,915	391,175	374,780	376,440	16.09%
Capital Projects Fund	58,769	58,801	58,801	58,801	.03%
Proprietary Fund	3,130,923	3,358,988	3,231,968	3,245,800	-.19%
Total Funds	\$3,445,607	\$3,808,964	\$3,665,549	\$3,681,041	1.27%

Program Description

The General Services Division manages repair and maintenance services for state agencies in the capitol complex and several state-owned buildings in the Helena area (Section 2-17-111, MCA). The program also provides locksmith services, painting, remodeling, and construction services. The program supervises contracts for services for state-owned buildings, including mechanical maintenance, pest control, janitorial services, elevator repair, security, maintenance, and garbage collection.

Current Level Budget

The LFA current level budget is nearly the same as the 1991 biennium appropriation. Personal services costs are a smaller portion of the total budget while operating costs comprise a larger share due to contracting for services formerly provided by state employees. Beginning in fiscal 1990, the division reduced 15.0 FTE and contracted with vendors to provide janitorial services in the capitol complex. In early fiscal 1991, the division eliminated 10.0 FTE and contracted for the provision of security services in the capitol complex. These changes were authorized by section 7 of

House Bill 100 which allows agencies to move personal services funds to contracted services if the same functions can be provided at a lower cost. Cost savings realized from contracting these services are estimated to be \$302,492 over the 1993 biennium (see the agency narrative).

Two operating costs account for the majority of increase between fiscal 1990 actual expenditures and the current level. The contract for capitol security adds \$147,493 each year, and inflation and rate increases in utilities add \$116,439 in fiscal 1992 and \$135,462 in fiscal 1993. There is also a small increase (\$18,512) to provide authority for up to \$50,000 in special projects that agencies may request the division to perform.

Equipment includes a sound system, replacement chairs and a conference table, two PC's, and software upgrades.

Program funding is a combination of general fund, capitol projects funds, and proprietary funds. Authority from the capitol building account (\$58,801) in the capital projects fund is appropriated to the division in lieu of charging agencies for services. These funds are used to fund capitol building maintenance projects, prioritized and approved by the department director. In fiscal 1990, the cost of such

GENERAL SERVICES PROGRAM

maintenance projects was less than the \$58,801 appropriation.

The second funding source is direct reimbursement from agencies for special projects, apart from routine maintenance. If special project costs are not incurred, the revenue will not be received. The LFA current level continues the special projects funding at the \$50,000 level authorized by the 1989 legislature.

General fund is appropriated to the division in lieu of charging agencies for the "common areas" in the capitol complex such as legislative space in the capitol, museum space in the Historical Society, and the Governor's executive residence. The general fund amount is calculated at 12 percent of operating costs after deducting the operating transfer for capitol land grant funds, the expenditure authority for the capitol land grant funds, and expenditure authority for the special projects, but not including any proposed pay plan increases.

General fund is transferred to the proprietary account as rental expense, which is done to comply with generally accepted accounting principles. The general fund expenditure was \$255,915 in fiscal 1990, \$127,990 or 33 percent less than appropriated. The underexpenditure was due primarily to utilities costs that were lower than budgeted.

The final funding source is rental income from state agencies, deposited to the proprietary account. The rental rate is assessed against the square footage of space occupied by each agency. The rate is based on the operating costs of the division (before

pay plan), less the other funding sources. The remaining operating costs are then divided by the occupied square footage in the capitol complex (848,440 square feet) to determine the rate per square foot.

The Executive Budget is supported by rental rates for warehouse space of \$2.22 per square foot each year of the 1993 biennium. Rates for office space are \$3.28 per square foot in fiscal 1992 and \$3.34 in fiscal 1993. The LFA current level budget also uses these rental rates. The rates include a 2 percent pay plan increase each year of the biennium.

Issues

Irrigation Wells Funded from Rental Account

In fiscal 1990, the Long Range Building program funded, from the proprietary rental account, development of two wells (\$25,000 each year) for irrigating the capitol grounds. Additionally, \$10,000 was spent in contracted services in General Services to evaluate the feasibility of such projects. These costs would be more accurately reflected in grounds maintenance fees included in agency budgets. Grounds maintenance functions were transferred from General Services to the Department of Fish, Wildlife, and Parks. While the wells will lower the cost of watering capitol grounds, the reduced costs will not accrue to the proprietary rental account which pays for the projects. According to program estimates, funding well development from the rental account will draw down the cash balance (\$26,785) to a level that will support division operations for three days using an annual budget at the fiscal 1993 level.

MAIL & DISTRIBUTION BUREAU

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	9.75	9.75	10.25	10.25	.50
Personal Services	188,461	201,014	205,034	205,336	5.36%
Operating Expenses	1,117,254	1,193,333	1,339,371	1,336,234	15.80%
Equipment	530	0	0	0	-100.00%
Total Program	\$1,306,245	\$1,394,347	\$1,544,405	\$1,541,570	14.27%
<u>Fund Sources</u>					
Proprietary Fund	1,306,245	1,394,347	1,544,405	1,541,570	14.27%
Total Funds	\$1,306,245	\$1,394,347	\$1,544,405	\$1,541,570	14.27%

Program Description

The Central Mail Bureau manages central mail service for state agencies (Section 2-17-301, MCA). Both incoming U.S. mail and inter-office mail are routed and delivered by this bureau, which also picks up and processes outgoing mail for user agencies. The program manages the post office in the capitol building.

Current Level Budget

The current level 1993 biennium budget increases 14.3 percent over the 1991 biennium. Inflation in postage costs accounts for almost all of the increase in operating costs (\$216,522 annually). Printing of deadhead envelopes adds \$3,500 in fiscal 1992. Personal services costs increase due to a transfer of 0.5 FTE from the Accounting and Management Support Division, vacancy savings in fiscal 1990, and full implementation of the fiscal 1991 pay plan.

The program is funded by proprietary funds from four sources. The first source--deadhead mail--is recovered from a fee assessed each state agency for internal mail sorting and delivery. The fee is based on the number of pieces of mail generated by the agency and the number of stops bureau personnel must make within each agency. Volume is determined by a piece count done each biennium. The bureau revenue estimate for deadhead mail is \$133,353 per year.

The second funding source is a contract with the U.S. Postal Service for \$38,976 annually to cover the cost of operating the capitol post office and other services provided for the U.S. Postal Service.

Actual postage and shipping costs, the third revenue source, are recovered from agencies and deposited to proprietary account. This revenue source should equal expenses recorded in postage costs.

The fourth source of revenue is the overhead cost recovered on postage services for outgoing U.S. mail and is limited to 6 percent in fiscal 1991 by House Bill 100. Overhead is the "mark-up" cost that the bureau adds to the cost of mailing a presorted letter.

Table 13 shows the estimated amount of each of these sources of revenue in the Executive Budget. The overhead cost included in Table 13 is calculated at 6 percent of budgeted postage costs. (The actual overhead rate recovered in fiscal 1990 was 6.7 percent compared to the 7 percent rate limit imposed by the legislature.)

Issues

Central mail expenditures are higher than revenues in the Executive Budget, if overhead is held to 6 percent. The central mail account balance would be reduced by \$23,662 to fund the executive current level budget. Further

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reductions would be necessary to fund the modified budget request (\$13,000 over the biennium), pay plan increases above 2 percent annually, and benefit increases. The ending cash balance in the central mail account is estimated to

be \$241,771 at the beginning of fiscal 1992. The legislature may want to review revenues, expenditures, and the estimated ending fund balance for this program.

Table 13
Comparison of Central Mails Revenue to Executive Budget Request
and LFA Current Level Budget

<u>Revenue and Budget</u>	<u>Actual FY90</u>	<u>Estimated FY92</u>	<u>Estimated FY93</u>	<u>Change from 1990 to 1992</u>
Executive Budget Request				
Revenue:				
Post Office Contact	\$ 38,999	\$ 38,976	\$ 38,976	-0.06%
Deadhead Mail	112,271	133,353	133,353	18.78%
Postage Cost	1,088,541	1,384,714	1,384,714	27.21%
Overhead (6%)	<u>69,481</u>	<u>83,083</u>	<u>83,083</u>	<u>19.58%</u>
Total Funds	<u>\$1,309,292</u>	<u>\$1,640,125</u>	<u>\$1,640,125</u>	<u>25.27%</u>
Executive Budget:		\$1,649,813	\$1,654,099	
Expenditures (Over) or Under Revenue		\$(9,688)	\$(13,974)	

Additional Services Not Included in Executive Budget

The cost of outgoing mail services, recently extended to the Departments of Highways and Health and Environmental Services, is not included in the Executive Budget or the LFA current level budget. The bureau estimated that about \$200,000 of increased authority is needed to cover costs of the service expansion. The legislature may wish to review department documentation as to

the revenues and costs incurred for this service expansion and offsetting cost savings in the two agencies.

Executive Budget Modifications

New Postage Machines

The department is requesting \$13,000 in proprietary funds over the biennium to replace postage machines. One replacement machine will be purchased each year.

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<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	38.00	38.00	38.00	38.00	.00
Personal Services	1,009,895	1,123,234	1,120,856	1,120,033	5.05%
Operating Expenses	325,520	317,340	325,918	327,016	1.57%
Equipment	2,346	2,825	2,642	2,642	2.19%
Debt Service	1,807	0	0	0	-100.00%
Total Program	\$1,339,568	\$1,443,399	\$1,449,416	\$1,449,691	4.17%
<u>Fund Sources</u>					
General Fund	859,432	954,282	931,458	931,297	2.70%
Proprietary Fund	480,136	489,117	517,958	518,394	6.92%
Total Funds	\$1,339,568	\$1,443,399	\$1,449,416	\$1,449,691	4.17%

Program Description

The State Personnel Division provides state agencies with a comprehensive program of personnel administration including: position classification, collective bargaining and labor relations, group benefits plans, compensation plan and rules, deferred compensation, training, employee incentive awards, sick leave fund, equal employment and affirmative action, and health education. The division publishes state rules and policies relating to recruitment, selection, discipline, grievance, performance appraisal, leave, affirmative action, and other personnel matters.

Current Level Budget

The 1993 biennium budget is 4.2 percent greater than the 1991 biennium. Personnel services costs increase due to

vacancies in fiscal 1990 and full implementation of the fiscal 1991 pay plan in the 1993 biennium. Operating costs increase slightly due to adjustments for inflation, fixed costs, and increases in workloads. Equipment includes replacement chairs and films.

General fund supports Personnel Administration and some functions in the Employee Benefits program. Proprietary funds support two programs. The state health self-insurance premium fund supports most functions in the Employee Benefits program. Training fees and income support the Training program.

The following three tables (15, 16, and 17) present program budget detail for fiscal 1990, 1992, and 1993. Together the budgets for the three programs equal the amounts shown in the Personnel Division budget.

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of 1986 (COBRA) mandate that the state extend coverage to the former dependents of active employees or employees who leave state employment. For instance, divorced spouses of active employees may elect to remain in the state plan. COBRA eligibility is extended for up to 18 or 36 months depending on the circumstance mandating eligibility. Persons in this group pay the full premium for themselves and their dependents.

The self-insurance fund balance has been declining in recent years (see Table 17). Projections made in November 1990 by the actuary for the state group benefits plan show that the fund will have a cash deficit of \$5.8 million by the end of the 1993 biennium. Coupled with the required reserve, the unfunded liability in the account is projected to be \$16.8 million. By comparison, the

estimated ending fund balance would be \$1.7 million, with an unfunded liability of \$9.3 million, if the Executive Budget recommendation to increase the state insurance premium contribution by \$15 per employee per month in fiscal 1992 and \$30 in fiscal 1993 is approved.

The fund balance estimate assumes a 15 percent annual rate of medical inflation and utilization increase. The department is requesting that the actuary review the projection in order to determine if 15 percent is the correct inflation rate to use in estimating the fund balance. The University System is using a 19 percent inflation rate in estimating costs for its self-insured health plan in the 1993 biennium. The legislature may wish to review the updated fund balance estimates.

Table 17
Actual and Estimated Self-Insurance Health Insurance Fund Balance
(in millions)
Compared to the Fund Balance With the Executive Recommendation
Fiscal Year 1984 to Fiscal Year 1993

<u>Year</u>	<u>Income</u>	<u>Claims</u>	<u>Excess or (Loss)</u>	<u>Reserve</u>	<u>Required Reserve</u>	<u>Unallocated or (Inadequate) Reserve</u>
Current Level						
1984	\$14.965	\$11.967	\$2.998	\$10.138	\$4.884	\$5.254
1985	17.263	13.627	3.636	13.774	5.571	8.203
1986	17.600	14.668	2.932	16.706	5.974	10.732
1987	20.278	18.587	1.691	18.397	7.061	11.336
1988	20.579	21.654	(1.075)	17.322	8.212	9.110
1989	21.207	24.008	(2.801)	14.163	8.863	5.300
1990	23.554	27.137	(3.583)	10.580	7.531	3.049
1991	27.739	28.656	(0.917)	9.663	8.106	1.557
1992	28.011	33.116	(5.105)	4.558	9.448	(4.890)
1993	27.921	38.304	(10.383)	(5.826)	11.012	(16.838)
Balance with Executive Recommendation						
1991	27.739	28.656	(0.917)	9.663	8.106	1.557
1992	30.425	33.116	(2.691)	6.972	9.448	(2.476)
1993	33.042	38.304	(5.262)	1.710	11.012	(9.302)

Notes: The state insurance year is September 1 to August 31.
Income includes premiums and interest earnings.
The required reserve is the amount needed to pay incurred and unreported claims.
The unallocated reserve is the amount above the required reserved.
Inadequate reserves represent an unfunded liability.

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There are several alternatives that could be considered to fund the self-insurance fund deficit including: increased state contributions; increased employee contributions; and benefit reductions. In order to make the plan financially sound, premium increases or cost-saving measures would have to be implemented equal to \$31 per employee per month in fiscal 1992 and \$62 in fiscal 1993.

Table 18 shows the state contribution, core plan premium, family premium, and out-of-pocket costs for family premiums from insurance year 1980 to 1991 (September 1 to August 31). From the 1982 to 1989 plan year, premium in-

creases were in the form of a fixed dollar addition to the existing premium for all types of coverage (individual, individual and spouse, individual and family, and individual and children) and for all sub-groups (active employees, COBRA, and retirees). The premium increase generally either equaled or was less than the increase in state contribution. As a result, active employees paid less in out-of-pocket costs for dependent coverage between 1984 and 1990 than in 1983. Retired employees and COBRA insureds paid all premium increases as the state does not provide premium payments for those groups.

Table 18
Monthly Health Premium and Employer Contribution History
Insurance Years 1980 to 1993

<u>Year</u>	<u>State Share</u>	<u>Core Plan Premium</u>	<u>Excess State Share</u>	<u>Additional Premium for Family Coverage</u>	<u>Employee Cost for Family Coverage*</u>
1980	\$50.00	\$45.00	\$5.00	\$33.76	\$28.76
1981	60.00	55.00	5.00	39.40	34.40
1982	70.00	65.00	5.00	47.84	42.84
1983	80.00	77.67	2.33	56.93	54.60
1984	90.00	83.70	6.30	57.00	50.70
1985	100.00	93.70	6.30	57.00	50.70
1986	105.00	96.20	8.80	57.00	48.20
1987	115.00	101.20	13.80	57.00	43.20
1988	115.00	101.20	13.80	57.00	43.20
1989	115.00	101.20	13.80	57.00	43.20
1990	130.00	116.20	13.80	57.00	43.20
1991	150.00	136.20	13.80	67.00	53.20

*Out-of-pocket costs.

The department increased all dependent premiums by \$30.00 per month (\$20.00 increase in state share and \$10.00 employee cost for dependent coverage) in fiscal 1991, one of several revenue enhancement and cost saving measures to address a projected unfunded liability in the self-insurance fund. The benefits advisory council, established by Section 2-15-1016, MCA, reviewed the health insurance plan and made recommendations to keep the plan financially sound. The department accepted each of the council's

recommendations, estimated to save \$12.55 per employee per month. The recommendations included: 1) increasing the annual deductible from \$150 to \$175 per person per year, with a family maximum of \$525 per year; 2) increasing the employee co-payment from 20 percent of approved claims to 25 percent; 3) eliminating coverage for some types of organ transplants; 4) increasing the premium for insurance for dependent coverage by \$10.00 per month; 5) eliminating the full payment for accident coverage and requiring a co-

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Table 14
Personnel Administration

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>----Current Level----</u> <u>Fiscal 1992</u>	<u>Fiscal 1993</u>	<u>Change 1990 to 1992</u>
FTE	27.0	27.0	27.0	0.0
Personal Services	\$726,884	\$796,090	\$795,619	9.52%
Operating Expenses	105,815	107,563	107,873	1.65%
Equipment	<u>216</u>	<u>625</u>	<u>625</u>	<u>189.35%</u>
Total Costs	\$832,915	\$904,278	\$904,117	8.55%
Funding Source				
General Fund	\$832,915	\$904,278	\$904,117	8.55%

Personnel Administration increases about 9 percent from fiscal 1990 to 1992. Most of the increase is in personal services due to vacancies in fiscal 1990 and full implementation of the 1991 pay

plan in the 1993 biennium. Operating costs increase slightly due to inflationary adjustments and fixed costs. Equipment includes replacement chairs.

Table 15
Employee Benefits Program

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>----Current Level----</u> <u>Fiscal 1992</u>	<u>Fiscal 1993</u>	<u>Change 1990 to 1992</u>
FTE	8.0	8.0	8.0	0.0
Personal Services	\$200,304	\$226,450	\$226,324	13.05%
Operating Expenses	144,696	122,445	122,509	-15.38%
Equipment	<u>113</u>	<u>0</u>	<u>0</u>	<u>-100.00%</u>
Total Costs	<u>\$345,113</u>	<u>\$348,895</u>	<u>\$348,833</u>	<u>1.10%</u>
Funding Sources				
General Fund	\$ 26,517	\$ 27,180	\$ 27,180	2.50%
Proprietary Funds	<u>318,596</u>	<u>321,715</u>	<u>321,653</u>	<u>0.98%</u>
Total Funds	<u>\$345,113</u>	<u>\$348,895</u>	<u>\$348,833</u>	<u>1.10%</u>

The current level budget for the Employee Benefits program remains about the same as fiscal 1990 actual expenditures. Personal services increase due to vacancies in fiscal 1990 and due to a reallocation of expenses.

A 0.5 FTE was transferred between this program and Personnel Administration to accurately reflect program supervision responsibilities. The position transferred to the Employee Benefits program is paid at a higher rate than

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the 0.5 FTE transferred to Personnel Administration, accounting for about \$4,000 of the difference. Operating costs decrease due to removal of one-time expenditures for system development which offset increases in inflation and fixed costs.

The program is funded mostly from the group benefits administration account,

which receives revenue from investment earnings from the state health self-insurance fund. General fund supports administration of the state pay plan and salary survey activity and the employee incentive awards program, which provides cash bonuses to state employees whose money saving suggestions are implemented.

Table 16
Training Program

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>----Current Level----</u>		<u>Change 1990 to 1992</u>
		<u>Fiscal 1992</u>	<u>Fiscal 1993</u>	
FTE	3.0	3.0	3.0	0.0
Personal Services	\$ 82,707	\$ 98,316	\$ 98,090	18.87%
Operating Expenses	75,009	95,910	96,634	27.86%
Equipment	2,017	2,017	2,017	0.00%
Debt Service	<u>1,807</u>	<u>0</u>	<u>0</u>	<u>-100.00%</u>
Total Costs	\$161,540	\$196,243	\$196,741	21.48%
Funding Source				
Proprietary Funds	\$161,540	\$196,243	\$196,741	21.48%

The Training program budget increases 21.5 percent from fiscal 1991 to 1992. Personal services costs increase as one position was vacant for about four months in fiscal 1990. Operating costs increase to reflect higher expenses now that the program is fully staffed. Equipment includes training films. Debt-financed equipment purchases have been paid.

The program is funded from training fees charged to state agencies and other entities which send staff to classes. The increase in operating, equipment, and personal services costs will be recouped through additional revenue generated by the program.

Issue

State Health Insurance Funding

The state of Montana administers a self-insured group medical and dental insurance plan. The state pays a monthly contribution toward health insurance for: 1) permanent full and part-time employees working 20 or more hours per pay period; 2) seasonal employees working six months or more a year; and 3) part-time seasonal employees working 20 or more hours per week for six months or more each year.

The state does not pay a monthly contribution for other eligible members. A retired state employee and, under certain conditions, the surviving spouse and or children of a retired member may remain a member of the group health insurance plan. Provisions in the federal consolidated omnibus budget bill

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payment for such coverage; and 6) eliminating the carry-over of credits toward the annual deductible from the last quarter of the previous year. In spite of these changes, the department found that the state plan is still competitive with those offered by surrounding states. For instance, in 8 of 12 states surveyed, premiums for dependent coverage were at least \$90.00 higher than the Montana state plan. Comparing the Montana state health plan to those 12 plans, all but one have higher deductible and co-payment maximums that employees must pay before the plan pays 100 percent.

Although premium increases for dependent coverage totalling \$30.00 per month were instituted in fiscal 1991, the premium increase was still inadequate to cover projected costs generated for some

groups (see Table 19). The premium charged for "individual only" coverage is higher than costs generated for such coverage in all subgroups. However, the premium charged for all other types of coverage listed in Table 19 is not adequate to fund projected average claims costs for such groups in fiscal 1991, although it is only \$1 below monthly estimated claims costs for "individual and spouse" coverage. Individual only coverage is the largest percentage of all insurance subgroups, allowing excess premium income for that group to subsidize losses in the other groups. The legislature may wish to ask the department to review statute and policy governing the establishment of health insurance premiums and present premium options that more closely reflect various subgroup claims experience.

Table 19
Average Monthly Medical Cost by Insured Subgroup Compared to 1991 Premium,
Average Cost 1987 to 1989, and Projected 1991 Cost

<u>Subgroup, Distribution, Cost, and Premium</u>	<u>Individual Only</u>	<u>Individual and Spouse</u>	<u>Individual and Family</u>	<u>Individual and Children</u>
ACTIVE EMPLOYEES				
Percent Distribution	44%	12%	27%	17%
Average Claims Cost 1987 to 1989	\$64.00	\$137.00	\$206.00	\$133.00
Projected 1991 Claims Cost	\$82.00	\$176.00	\$265.00	\$171.00
1991 Premium	120.00	175.00	187.00	151.00
Premium Over (Under) Projected Cost	\$38.00	(\$1.00)	(\$78.00)	(\$20.00)
MEDICARE ELIGIBLE RETIREES*				
Percent Distribution	50%	14%	2%	1%
Average 1987 to 1989	\$61.00	\$204.00	\$284.00	\$141.00
Projected 1991 Claims Cost	\$79.00	\$254.00	\$366.00	\$182.00
1991 Premium	120.00	175.00	187.00	151.00
Premium Over (Under) Projected Cost	\$41.00	(\$79.00)	(\$179.00)	(\$31.00)

*Two categories unique to this group are not included--medicare eligible spouse and medicare eligible family.

Table 20 compares the 1991 premium to the average claims cost from 1987 to

1989 for early retirees and COBRA insureds. Projected claims costs for

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these two groups are not available. However, if 1991 claims costs for these groups increase commensurate with pro-

jected increases for the groups shown in Table 19, premiums collected in 1991 will be inadequate to cover claims costs.

Table 20
Average Monthly Medical Cost for Early Retirees and COBRA Insureds
Average Claims Cost 1987 to 1989 Compared to the 1991 Premium

<u>Subgroup, Distribution, Cost, and Premium</u>	<u>Individual Only</u>	<u>Individual and Spouse</u>	<u>Individual and Family</u>	<u>Individual and Children</u>
Early Retirees				
Percent Distribution	38%	45%	12%	4%
Average 1987 to 1989	\$174.00	\$309.00	\$353.00	\$218.00
1991 Premium	\$120.00	\$175.00	\$187.00	\$151.00
COBRA Insureds				
Percent Distribution	46%	9%	32%	13%
Average 1987 to 1989	\$127.00	\$158.00	\$328.00	\$297.00
1991 Premium	\$120.00	\$175.00	\$187.00	\$151.00

Executive Budget Modifications

Employee Newsletter

The Executive Budget includes \$16,000 in group benefit administration proprietary funds to publish a biannual newsletter that would be delivered to employees' homes.

Combined Campaign

The department coordinates a combined giving campaign in which charities meeting specified criteria can solicit contributions from state employees. The charities pay a fee to the department for printing, postage, and other operating expenses to distribute informational materials and pledge cards. The cost to operate the combined campaign included in the Executive Budget is \$20,000 in state special revenue over the biennium. The department coordinated the printing with private vendors in fiscal 1991 with charities directly reimbursing these vendors.

Group Insurance Benefits

The 1989 legislature approved a modified budget request to integrate employee benefit information into the computerized central payroll system. The data processing and system development costs included in the Executive Budget to continue system development and operate that portion of the system during the next biennium are \$53,000 in proprietary funds. Most of the expenditure (\$34,000) would occur in fiscal 1992 as final system modifications are implemented. Complete integration of employee benefit information into central payroll will help accurately track employee eligibility for benefits.

Professional Development Center

Fees collected by the Professional Development Center, which provides and coordinates management and organizational training, are projected to grow 5 percent annually over the coming biennium. The Executive Budget includes \$27,792 in proprietary authority to cover the cost of workload growth.

TORT CLAIMS DIVISION

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	10.50	10.50	10.50	10.50	.00
Personal Services	299,175	356,199	339,418	339,180	3.54%
Operating Expenses	799,134	1,548,183	1,673,004	1,734,362	45.16%
Equipment	4,151	0	8,903	0	114.48%
Transfers	<u>1,170,567</u>	<u>1,151,995</u>	<u>0</u>	<u>0</u>	<u>-100.00%</u>
Total Program	\$2,273,027	\$3,056,377	\$2,021,325	\$2,073,542	-23.17%
<u>Fund Sources</u>					
Proprietary Fund	<u>2,273,027</u>	<u>3,056,377</u>	<u>2,021,325</u>	<u>2,073,542</u>	<u>-23.17%</u>
Total Funds	\$2,273,027	\$3,056,377	\$2,021,325	\$2,073,542	-23.17%

Program Description

The Tort Claims Division provides for the investigation, defense, and payment of bodily injury and property damage claims incurred by all agencies, officers, and employees of the State of Montana. The division also assesses the fire, casualty, bond, and liability risks of the state for all state-owned buildings, equipment, automobiles, fixtures, boilers, aircraft, cash, and securities, and provides either commercial or self-insurance protection for the financial loss of such property (Article II, Section 18, Constitution of Montana, and Title 2, Chapter 9, Parts 1 through 3, MCA).

Current Level Budget

The current level budget cannot be compared to the 1991 biennium using the above table. Transfers, accounting for about one-half the expenditures in fiscal 1990, are not budgeted in the current level and commercial insurance purchases of \$742,591 in fiscal 1990 were incorrectly coded to another activity in the division. The division purchases several commercial insurance policies, including property, helicopter, boiler, and aircraft coverage. Other coverage, including general liability insurance, is self-insured through premiums assessed state agencies. Table 21 compares fiscal 1990 actual expenditures with the current level recommendation.

Table 21
Tort Claims Division Current Level Budget

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>----Current Level----</u> <u>Fiscal 1992</u>	<u>Fiscal 1993</u>	<u>Change 1990 to 1992</u>
FTE	10.50	10.50	10.50	0.00
Personal Services	\$ 299,175	\$ 339,418	\$ 339,180	13.45%
Operating Expenses	1,505,715	1,673,004	1,734,362	11.11%
Equipment	<u>4,151</u>	<u>8,903</u>	<u>0</u>	<u>114.48%</u>
Total Costs	\$1,809,041	\$2,021,325	\$2,073,542	11.73%
Funding Source				
Proprietary Funds	\$1,809,041	\$2,021,325	\$2,073,542	11.73%

TORT CLAIMS DIVISION

The fiscal 1992 current level budget is about 12 percent higher than fiscal 1990 expenditures. Personal services increase due to vacancies in fiscal 1990 and full implementation of the fiscal 1991 pay plan. Commercial insurance costs are \$132,419 higher in fiscal 1992 than the fiscal 1990 actual expenditure and \$197,681 higher in fiscal 1993.

Equipment includes screens for portable computers and one printer for portable computers. A scanner that copies documents to computer disk is funded and photocopy fees are reduced by one-fourth each year to reflect the estimated reduction in photocopy expense and four-year payback for the scanner.

Transfers, which moved funds from the insurance premium self-insurance fund to the agency internal services account, are no longer included in the program budget. The department has determined that such transfers are unnecessary. The program will now draw funding directly from the insurance premium account.

Fund Balance of the Self-Insurance Fund

The state is self-insured for general liability, automobile, Board of Investments property foreclosures, Board of Housing property foreclosures, and foster care youth insurance coverage. The division maintains a fund to pay program operating and claims expenses for such insurance. Premium payments from state agencies are deposited to the fund to pay operating and actual and potential claim expenses.

Table 22 shows the actual fund balance of the self-insurance fund for fiscal years 1986 through 1990 and the projected fund balance through fiscal 1993. The division provided estimated revenues and claims expenses; estimated operating expenditures are drawn from the Executive Budget and include the current level recommendation and two modified budget requests. The estimated cash balance of the fund is estimated to be about \$5.2 million at the end of 1993, using the LFA current level budget. If the Executive Budget is adopted and if the estimated claims do not exceed \$2.7 million per year, the ending cash balance will be about \$3.2 million.

Table 22
Actual and Estimated Self-Insurance Fund Balance
Fiscal Year 1986 to Fiscal Year 1993

Year	Beginning Balance	---Revenue---		---Expenditures---		Ending Balance	Annual Increase (Decrease)
		Premiums	Interest Earnings	Claims	Operating Costs		
1986	\$ 8,218,036	\$3,110,444	\$715,472	\$1,404,794	\$ 447,739	\$10,191,419	\$1,973,383
1987	10,191,419	2,428,597	632,688	5,426,107	849,073	6,977,524	(3,213,895)
1988	6,977,504	3,414,004	627,085	3,100,156	945,000	6,973,437	(4,067)
1989	6,973,437	3,896,474	578,549	3,396,219	1,891,390	6,160,851	(812,586)
1990	6,160,851	3,710,853	516,399	2,176,332	1,960,396	6,251,375	90,524
1991	6,251,375	3,741,485	523,987	2,852,738	2,151,995	5,512,114	(739,261)
1992	5,518,127	3,999,290	462,022	2,644,738	2,021,325	5,313,376	(204,751)
1993	5,250,684	4,286,111	445,364	2,709,997	2,073,542	5,198,620	(52,064)

Note: Fiscal 1991 to 1993 are estimated revenues, expenditures, and balances.

Even though the fund is projected to have an ending cash balance of \$5.2 million, the 1990 actuarial report of

the self-insurance fund found that the reserve fund balance would need to be about \$19.3 million to cover potential

TORT CLAIMS DIVISION

and actual losses. The fund balance as of June 1990, was approximately \$6.3 million, leaving a reserve deficiency of about \$13 million. Over the past four years, the actuarial estimate of the fund balance needed to pay actual and potential claims has declined by almost 50 percent (from \$38 million to \$19.3 million). The actuarial reports attribute the decline to statutory changes limiting claims to no more than \$750,000 for each claim and \$1.5 million for each occurrence (Section 2-9-108, MCA). Division personnel also attribute the improvement to more timely response to claims and lawsuits filed against the state, and to the administrative philosophy of resolving claims that have merit, and defending and trying all other cases.

Payment of Deductibles for Commercial Insurance

The actuarial study evaluated the adequacy of the self-insurance fund to pay general liability claims only. However, fund balances are also used to pay the difference between commercial insurance deductible costs and the amount of the deductible paid by agencies. Property coverage, the major commercial insurance policy purchased by the division, carries a \$150,000 deductible for each occurrence. The affected agency must pay the first \$1,000 and the balance is drawn from the self-insurance fund. In fiscal 1990, the division expended \$367,228 for deductibles from the self-insurance fund. The division will review the allocation of commercial insurance costs to agencies during the 1993 biennium and may propose premium increases to recoup the cost of the deductible in the 1995 biennium.

Issues

Program Performance Audit

In December 1990, the Legislative Auditor issued a program performance audit of the Tort Claims Division for the period fiscal 1989 to 1990. Two of the audit findings with direct budgetary impacts are: 1) data to determine property and auto insurance premiums was

incomplete, so it was not possible to accurately determine whether all state assets are insured or whether premiums are accurately assessed; 2) agencies were not always billed correctly, were billed late in the fiscal year, and in some cases, were not billed for insurance; and 3) the division does not devote enough staff time or effort in evaluating state risk or developing a risk management plan.

The department concurred with these conclusions and committed to preparation, publication, and dissemination of a division procedures manual to address most of the audit deficiencies by December 1991. Other tasks, such as review and improvement of premium formulas, will be implemented in conjunction with the development of the 1995 biennium budget. The legislature may want to consider requesting the division to review with a standing committee of the legislature the potential budgetary impacts of self-insurance program changes.

The division also recently reorganized in order to emphasize risk management, other administrative, and accounting responsibilities. The division administrator/chief legal position was separated into two positions and functions and one attorney position was changed to an administrative position.

Executive Budget Modifications

Tort Claims Contracts

The Executive Budget includes \$2.0 million in proprietary authority to fund contracted legal services. The division contracts with the Department of Justice and private attorneys to defend some cases when the workload is higher than division staff can support. Since fiscal 1988, actual expenditures for legal services have exceeded the appropriated amount, requiring the division to seek a budget amendment for additional authority. The division projects that the number of legal actions will require continued contracting for services and added budget authority. Contracted legal

TORT CLAIMS DIVISION

services may also increase due to the recent decision to convert a vacant attorney FTE into an accountant position.

Table 23 compares the annual cost of legal services provided by several sources. While it appears that house staff are the least expensive alternative, the Legislative Auditor determined that it is not possible to accurately compare the cost of a staff position to the cost of contracted legal services, as the division does not track the time spent on cases by in-house staff. The annual salary for a staff attorney ranges from \$35,360 to \$41,540 (see Table 23). In fiscal 1990, contracted legal services were billed at \$48 per hour from Agency Legal Services (ALS) in the Department of Justice. However, the proposed rate for the 1993 biennium is \$53 per hour. ALS estimates that each attorney recovered 1,250 billable hours in fiscal 1990, for an annual salary rate of \$60,000 in fiscal 1990 compared to \$66,250 in the 1993 biennium. Division staff say that hourly costs for private legal contracted services range from \$60 to \$110 per hour. Assuming that outside legal counsel generate 1,500 billable hours per year, the annual cost can range from \$90,000 to \$165,000.

The Department of Justice estimates that Tort Claims generates 60 percent of ALS revenue. The proposed rate increase for ALS was not communicated to the Tort Claims Division in time to be included in its budget request. Therefore, the current level budget and modified budget request for the division will purchase fewer hours of contracted legal services than in fiscal 1990, if the ALS proposed rate is adopted.

Table 23
Tort Claims Division Legal Costs

<u>Legal Service</u>	<u>Fiscal 1992 Hourly and Annual Cost</u>
Division Staff	
Annual Salary	
Lawyer III	\$35,360
Lawyer IV	38,513
Lawyer V	41,540
Hourly Cost Equivalent at 1,250 Billable Hours per FTE	
Lawyer III	\$28.29
Lawyer IV	30.81
Lawyer V	33.23
Department of Justice Agency Legal Service 1,250 per FTE Billable Hours per FTE	
\$48 per Hour	\$60,000
\$53 per Hour	66,250
Private Counsel	
1,500 Billable Hours per FTE	
\$60 per Hour	\$90,000
\$110 per Hour	165,000

Additional Personnel

An additional (0.5 FTE) half-time is included in the Executive Budget at a biennial cost of \$21,738 in proprietary funds. The FTE authority would be combined with a current level 0.5 FTE to fund a full-time position. The current level 0.5 FTE has been filled at a full-time equivalent during fiscal 1990, with needed funding being drawn from vacancy savings within the program. The employee tracks, logs, and documents claims handled by the division.

STATE TAX APPEAL BOARD

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	11.00	11.00	10.50	10.50	-.50
Personal Services	234,025	341,774	288,703	288,048	.17%
Operating Expenses	60,567	94,152	67,477	67,659	-12.66%
Equipment	15,214	0	0	0	-100.00%
Local Assistance	2,876	0	0	0	-100.00%
Total Program	\$312,682	\$435,926	\$356,180	\$355,707	-4.91%
<u>Fund Sources</u>					
General Fund	312,682	435,926	356,180	355,707	-4.91%
Total Funds	\$312,682	\$435,926	\$356,180	\$355,707	-4.91%

Program Description

The State Tax Appeal Board (STAB) provides a tax appeal system for all actions of the Department of Revenue (Article XIII, Section 7 of the Montana Constitution and Section 15-2-101, MCA). It travels throughout the state to hear appeals from decisions of the 56 county tax appeal boards (CTAB) and takes original jurisdiction in matters involving income taxes (Section 15-30-147, MCA); corporate taxes (Section 15-31-532, MCA); and severance taxes, centrally assessed property, and new industry (Section 15-2-302, MCA). STAB pays a per-meeting honorarium, including mileage reimbursement and meals, to the 168 CTAB members and pays clerical expenses for each board.

Current Level Budget

While current level budget declines about 5 percent over the total 1991 biennium, the 1993 biennium current level is higher than fiscal 1990 actual expenditures. A 0.5 FTE clerical

position, vacant since December 1989 when the employee was laid off due to reduced workload, is eliminated reducing personal service costs. This decrease is offset by the continuation of the fiscal 1991 pay plan increase in the 1993 biennium. Current level operating costs decline over the 1991 biennium as the program expended about \$43,000 less than it was appropriated in fiscal 1990. Equipment purchases in fiscal 1990, which included personal computers and software, were funded from the operating expenses appropriation.

Reimbursement to CTAB's for secretarial help was recorded in local assistance in fiscal 1990. These costs are budgeted in contracted services for the 1993 biennium.

The program is supported by general fund. Table 24 shows the current level budget for STAB and CTAB's. The annual current level program budget is about 14 percent higher than fiscal 1990 actuals.

STATE TAX APPEAL BOARD

Table 24
Budget Detail for STAB and CTABs

<u>Program and Funding</u>	<u>Fiscal 1990</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>	<u>Change from 1990 to 1992</u>
State Tax Appeal Board				
FTE	5.5	6.0	6.0	0.5
Personal Services	\$159,068	\$216,410	\$216,012	36.05%
Operating	51,436	52,772	52,933	2.60%
Equipment	<u>1,752</u>	<u>0</u>	<u>0</u>	-100.00%
Subtotal	\$212,256	\$269,182	\$268,945	26.82%
County Tax Appeal Boards				
FTE	5.5	4.5	4.5	-1.0
Personal Services	\$74,957	\$72,293	\$72,036	-3.55%
Operating	9,131	14,705	14,726	61.04%
Equipment	13,462	0	0	-100.00%
Local Assistance	<u>2,876</u>	<u>0</u>	<u>0</u>	-100.00%
Subtotal	\$100,426	\$86,998	\$86,762	-13.37%
Total Program				
FTE	11.0	10.5	10.5	-0.5
Personal Services	\$234,025	\$288,703	\$288,048	23.36%
Operating	60,567	67,477	67,659	11.41%
Equipment	15,214	0	0	-100.00%
Local Assistance	<u>2,876</u>	<u>0</u>	<u>0</u>	-100.00%
Total Cost	\$312,682	\$356,180	\$355,707	13.91%
General Fund	\$312,682	\$356,180	\$355,707	13.91%

The State Tax Appeal Board program budget increases almost 27 percent between fiscal 1990 and 1992 as it includes per diem expenses formerly budgeted and paid in the CTAB program. Reimbursements for county secretarial and per diem expenses are increased as more hearings are expected to be held in the 1993 biennium. FTE increase 0.5 as a half-time position was transferred from the CTAB program.

The CTAB program budget declines as the per diem expense formerly paid in this program is moved to the STAB program. FTE decline by one full position due to removal of a half-time position vacant almost one year and transfer of a half-time position to the STAB program. Operating expenses increase slightly to accommodate more hearings in the 1993 biennium.

COMPARISON OF EXECUTIVE AND LFA CURRENT LEVELS

STATE COMPENSATION MUTUAL INSURANCE FUND

Budget Item	Executive Current Level		LFA Current Level		Executive Over (Under) LFA
	Fiscal 1992	Fiscal 1993	Fiscal 1992	Fiscal 1993	
FTE	175.00	174.00	171.00	170.00	4.00
Personal Services	4,417,074	4,390,364	4,323,404	4,296,848	187,186
Operating Expenses	3,662,851	3,609,397	2,701,475	2,677,511	1,893,262
Equipment	185,896	124,141	136,080	88,452	85,505
Benefits and Claims	110,953,000	118,060,000	110,953,000	118,060,000	0
Transfers	2,941,701	2,959,054	2,921,506	2,938,859	40,390
Total Agency	\$122,160,522	\$129,142,956	\$121,035,465	\$128,061,670	\$2,206,343
Fund Sources					
State Revenue Fund	26,570	0	26,025	0	545
Proprietary Fund	122,133,952	129,142,956	121,009,440	128,061,670	2,205,798
Total Funds	\$122,160,522	\$129,142,956	\$121,035,465	\$128,061,670	\$2,206,343

Executive Budget Comparison

The Executive Budget is \$2.2 million higher than the LFA current level. Most of the difference is due to use of different base years and inflation rates. The LFA current level budget includes \$176,712 more in inflationary adjustments than the Executive Budget, which includes a higher deflation factor for computer processing.

The Executive Budget is 4.0 FTE higher than the LFA current level because the LFA deletes 4.0 FTE that had been vacant for 15 consecutive months. The Executive Budget continues these positions, making its personal services costs about \$187,000 higher than the LFA current level.

Operating costs are significantly different in the two budgets. The Executive Budget is higher than the LFA in the following categories: contracted services (\$1.6 million); repair and maintenance (\$147,000); supplies and materials (\$120,000); travel (\$80,000); and communications (\$49,000). The LFA budget is based on fiscal 1990 actual expenditures in all the categories except contracted services (see "Contracted Services").

Equipment is \$85,505 higher in the Executive Budget, which includes more

computer and office equipment in both years of the 1993 biennium. The Executive Budget contains \$40,390 more in transfers than the LFA current level. Transfers include rent, payment for the Department of Social and Rehabilitation workers' compensation rehabilitation panels, and reimbursement for DOLI regulatory functions.

The Executive and LFA current level budgets are slightly different in state special revenue funds, as the Executive Budget includes more operating expenses to support the 1.0 employer's payroll tax FTE in fiscal 1992.

Benefits are based on the latest actuarial report. Benefits and claims are included in the budget request for the first time due to a change in generally accepted accounting principles requiring such expenditures to be included in the enterprise fund type.

Contracted Services

The most significant difference between the Executive and LFA current level budgets is in contracted services. The Executive Budget exceeds the LFA budget by the following biennial amounts: \$600,000 in legal fees and court costs; \$240,000 in premium refunds to firms that institute a safety program; and \$340,000 in computer processing costs. The LFA current level budget is based on

STATE COMPENSATION MUTUAL INSURANCE FUND

fiscal 1990 expenditures, with adjustments removing \$500,000 of one-time and nonrecurring expenditures. The LFA added an additional \$90,000 over the biennium to support increases in the cost of the actuarial contract, dues, and special reports from the National Council on Compensation Insurance, premium refunds to firms establishing safety programs, and a contract to evaluate the automated system in fiscal

1993. The Executive Budget removed the same one-time expenditures but included higher increases in the categories noted above.

Executive Budget Modifications

In addition to the \$251.3 million current level budget for the 1993 biennium, the Executive Budget includes \$2.5 million and 41.9 FTE in budget modifications. The budget modifications are discussed in the agency narrative.

STATE COMPENSATION MUTUAL INSURANCE FUND

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	176.00	175.50	171.00	170.00	-5.50
Personal Services	4,011,814	4,158,843	4,323,404	4,296,848	5.50%
Operating Expenses	3,167,095	2,729,226	2,701,475	2,677,511	-8.77%
Equipment	136,561	73,340	136,080	88,452	6.97%
Benefits and Claims	39,876,563	0	110,953,000	118,060,000	474.30%
Transfers	961,780	441,164	2,921,506	2,938,859	317.72%
Total Agency	\$48,153,813	\$7,402,573	\$121,035,465	\$128,061,670	348.37%
<u>Fund Sources</u>					
State Revenue Fund	3,349,713	7,376,047	26,025	0	-99.76%
Federal Revenue Fund	0	26,526	0	0	-100.00%
Proprietary Fund	44,804,100	0	121,009,440	128,061,670	455.91%
Total Funds	\$48,153,813	\$7,402,573	\$121,035,465	\$128,061,670	348.37%

Agency Description

The State Compensation Mutual Insurance Fund (State Fund), established January 1, 1990, provides liability insurance for workers' compensation and occupational disease. The State Fund may not refuse coverage to any employer (Section 39-71-431, MCA).

Effective July 1, 1990, the State Fund was divided into two businesses by the legislature. The old business is responsible for administration and payment of claims for injuries that occurred before July 1, 1990. The State Fund actuary estimates that these claims will total \$207 million. A tax of 0.28 percent was imposed on each employer's covered payroll to fund the old business. The new business is responsible for claims for injuries occurring on or after July 1, 1990. It is funded through premiums charged to employers purchasing workers' compensation insurance from the State Fund. Statutes require the State Fund to set premium rates at a level sufficient to fund the insurance program, including the costs of administration, benefits, and adequate reserves.

The State Fund is attached to the Department of Administration for administrative purposes. Management of

the State Fund is vested in a five-member board of directors appointed by the Governor. The State Fund is subject to laws governing state agencies, unless the State Fund is specifically exempted from compliance with that law.

Current Level Budget

The 1993 biennium budget for the State Fund is not comparable to the 1991 biennium budget because of two significant changes: budgeting for benefits and claims and change in fund types. In the 1991 biennium, benefits and claims were funded from the nonbudgeted expendable trust fund entity, which does not require a legislative appropriation. Due to a new standard in generally accepted accounting principles which requires that activities such as state insurance funds be budgeted in an enterprise fund, OBPP included benefits as a budgeted item and changed the fund type for the agency from state special revenue to proprietary funds.

Personal services increase 5.5 percent during the 1993 biennium, despite a reduction of 5.5 FTE. In fiscal 1991, a 0.5 FTE was transferred to the Department of Labor and Industry (DOLI) as part of the reorganization. Transfer of the employer's payroll tax collection to the Department of Revenue (DOR)

STATE COMPENSATION MUTUAL INSURANCE FUND

effective July 1, 1991, reduces FTE by 0.5 in fiscal 1992 and by 1.0 in fiscal 1993. Additional reductions are due to removal of 4.0 FTE vacant for 15 consecutive months.

Annual 1993 biennium personal services costs are higher than fiscal 1990 expenditures despite the reduction in FTE due to vacancies in fiscal 1990 and salary increases granted by the State Fund (see "Issues" section). The State Fund implemented pay raises averaging 6.9 percent in fiscal 1990.

Operating costs decline between fiscal 1990 and the annual 1993 biennium budgets due to removal of \$500,000 of one-time and discontinued costs. In fiscal 1990, the State Fund contracted with DOLI to audit employers and verify payroll amounts upon which premiums are assessed and paid. This \$300,000 cost will not occur in the 1993 biennium since the DOLI Audit Staff are transferred to the State Fund in a modified budget request in the Executive Budget. Insurance and bonds costs decrease \$200,000 from fiscal 1990 actual expenditures due to a change in generally accepted accounting principles which requires that reinsurance costs be offset against premium revenue rather than recorded as an expense.

Several operating cost increases are incorporated in the current level budget including: premium refunds to businesses that set up safety programs (\$10,000); the actuarial contract (\$20,000); dues and special reports from the National Council on Compensation Insurance (\$27,000); equipment maintenance (\$16,000); legal data bases (\$3,000); and a contract to evaluate the automated system (\$10,000 in fiscal 1993). The LFA current level budget also includes about \$30,000 each year for increased travel, training, and equipment maintenance, so that the State Fund can expand its marketing, audit, and safety programs and provide employees training.

The benefits and claims cost is based on the latest actuarial estimates of the 1993 biennium claims. These estimates anticipate the sunset of the freeze on the maximum compensation benefit (June

30, 1991) and medical fee schedule (December 31, 1991).

As part of the reorganization with DOLI, the fund type to support workers' compensation activity was changed to proprietary funds. The 1989 legislature appropriated state special revenue for operations of the WCD. Benefits and claims were paid from expendable trust funds, a nonbudgeted fund type. The change was made to comply with a revision to generally accepted accounting principles and is reflected in the 1993 biennium budget request.

State special revenue funds the 1.0 FTE and operating costs for collection of employer's payroll tax, transferred to the DOR beginning in fiscal 1992. Federal funds support a safety grant that has been transferred to DOLI as part of the reorganization.

Issues

Salary Increases

Senate Bill 428 of the 1989 session, which created the State Fund, exempted the executive director and employees of the State Fund from the state classification and pay matrices. In early 1990, the Board established salaries for the six executive staff, retroactive to January 1, 1990. The board based the new salaries on a survey of comparable positions in six states. The salary increase ranged from 25 to 70 percent. As a result of concerns expressed over the large increases, the board voted in mid-1990 to reduce salaries by \$3,000 for each position except the chief legal counsel.

In early 1990, the State Fund developed its own salary matrices for non-executive staff, based on a study of workers' compensation insurance programs in Arizona, Colorado, Idaho, Maryland, Minnesota, and Utah (the state programs that State Fund personnel felt were similar in size and operation to Montana's program). In March, these matrices were included in the union contract. During the payroll period ending June 1, 1990, employees were given raises implementing the new

STATE COMPENSATION MUTUAL INSURANCE FUND

matrices, retroactive to March. The resulting salary increases ranged from 2.5 to 33.4 percent, with most in the 5 percent range. Table 1 shows the overall average salary increase granted to State Fund employees (both executive and nonexecutive staff) in fiscal 1990.

Table 1
State Fund Salary Increases

<u>Item</u>	<u>Fiscal 1990</u>
Appropriation	\$3,311,750
State Fund Pay Level	<u>3,540,134</u>
Total Increase	\$ 228,384
Percent Increase	6.90%

Medical Deductible Plans

The State Fund or a private employer may offer a medical deductible plan for workers' compensation coverage (Section 39-71-434, MCA). There have been no requests for such coverage and the State Fund has not hired the 3.0 FTE authorized to implement and administer such plans. The LFA current level budget removes these positions. The legislature may want to consider authorizing FTE and expenditure authority in a language appropriation in the event the

State Fund offers a medical deductible plan.

Administrative Costs

The 1989 legislature approved a 1991 biennium budget for the WCD based on a maximum budget guideline of 8 percent of earned premium revenue for administrative expenses. In early 1990, after the State Fund separated from DOLI, the management staff conducted an analysis of the staffing, workload, and expenditure levels compared to other states with similar operations. According to the staff's study, Montana caseload per claims examiner was considerably higher than in other states. The study also found other state funds' expenditure levels varied between 14 and 24 percent of the earned premium revenues. Information compiled by the Office of the Legislative Auditor in fiscal 1986 found similar variation: in that year neighboring states workers' compensation plans spent as little as 7.8 percent and as much as 24.1 percent of earned premiums for administrative costs. The average for the eight states during that fiscal year, including Montana, was 13.1 percent. Based on this information, the board established a maximum budget guideline of 10 percent of earned premium revenue. This budget guideline was designed to allow the State Fund to add staff needed to improve the efficiency of the operation. The LFA current level budget is based on the 10 percent maximum budget guideline.

Executive Budget Modifications

1993 Biennium

<u>Budget Modifications</u>	<u>FTE FY92</u>	<u>FTE FY93</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
1) Claims Management Program	32.9	32.9		\$1,892,069	\$1,892,069
2) Audit Bureau	<u>9.0</u>	<u>9.0</u>		<u>628,420</u>	<u>628,420</u>
Total	41.9	41.9	\$ 0	\$2,520,489	\$2,520,489

STATE COMPENSATION MUTUAL INSURANCE FUND

Executive Budget Modifications

The Executive Budget includes the following budget modifications.

Claims Management Program

The Executive Budget includes 32.9 FTE and \$1,892,069 in proprietary authority for the biennium to continue the FTE added by budget amendment in fiscal 1991. The modified request would increase the claims examiner staff from 22 to 33, to reduce case loads to a "target" 255 open claims per examiner. State Fund staff say the average in private industry is 200-225 open claims per examiner. In addition, the State Fund would add:

-- 5 supervisory, technical, and clerical staff in the Finance Department to improve accounting services and evaluation of financial data;

-- 5.4 underwriting positions for a new marketing program to increase the amount of premium collected and a desk audit

program to ensure policyholders compliance with reporting criteria;

-- 2 safety consultants to conduct safety audits, evaluate employers for safety incentive programs, and provide safety evaluations for schedule rated policies;

-- 1 management position to manage the Benefits Division;

-- 2 rehabilitation coordinators to supervise contracted rehabilitation providers and provide coordination between claims examiners and these providers on claimants' cases;

-- 6.5 support staff.

Audit Bureau

As part of the reorganization with the DOLI, the Executive Budget transfers 9.0 FTE and \$628,420 expenditure authority for the audit function from DOLI to the State Fund. In fiscal 1990, the State Fund contracted with DOLI to perform this function.

COMPARISON OF EXECUTIVE AND LFA CURRENT LEVELS

PUBLIC EMPLOYEES RETIREMENT DIVISION

<u>Budget Item</u>	Executive Current Level		LFA Current Level		Executive Over(Under) LFA
	Fiscal 1992	Fiscal 1993	Fiscal 1992	Fiscal 1993	
FTE	20.00	20.00	20.00	20.00	0.00
Personal Services	518,860	517,936	513,760	512,836	10,200
Operating Expenses	322,764	301,472	321,286	309,366	(6,416)
Equipment	<u>1,566</u>	<u>1,704</u>	<u>0</u>	<u>0</u>	<u>3,270</u>
Total Agency	\$843,190	\$821,112	\$835,046	\$822,202	\$7,054
<u>Fund Sources</u>					
Non-expendable Trust	<u>843,190</u>	<u>821,112</u>	<u>835,046</u>	<u>822,202</u>	<u>7,054</u>
Total Funds	\$843,190	\$821,112	\$835,046	\$822,202	\$7,054

Executive Budget Comparison

The Executive Budget current level is \$7,054 higher than the LFA current level budget over the 1993 biennium. The largest difference is in personal services, where the Executive Budget made changes to FTE steps and benefit rates after the "snapshot" of the payroll, personnel, and position report was taken. These changes added \$10,200 to personal services costs.

Operating costs are higher in the LFA current level largely due to higher

rates of inflation for utilities and lower deflation rates for mainframe processing.

The Executive Budget includes a multi-user computer terminal and software.

Executive Budget Modifications

In addition to the \$1.7 million current level budget for the 1993 biennium, the Executive Budget includes \$537,145 in budget modifications for the Public Employees Retirement Division.

PUBLIC EMPLOYEES' RETIREMENT DIVISION

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	20.00	20.00	20.00	20.00	.00
Personal Services	461,682	522,201	513,760	512,836	4.34%
Operating Expenses	368,410	251,187	321,286	309,366	1.78%
Equipment	4,103	1,797	0	0	-100.00%
Total Agency	\$834,195	\$775,185	\$835,046	\$822,202	2.97%
<u>Fund Sources</u>					
Non-expendable Trust	834,195	775,185	835,046	822,202	2.97%
Total Funds	\$834,195	\$775,185	\$835,046	\$822,202	2.97%

Agency Description

The Public Employees' Retirement Division (PERD) of the Department of Administration administers most of the state employee retirement systems including: Public Employees', Game Wardens', Highway Patrol, Judges', Sheriffs', Municipal Police Officers', Firefighters' Unified Retirement Systems and the Volunteer Firefighters' retirement systems (Title 19, Chapters 3, 5, 6, 7, 8, 9, 12 and 13, MCA). It also administers the Federal-State Social Security Agreement as defined in Title II, Section 218 of the Social Security Act and Title 19, Chapter 1, MCA. The administration and operation of the retirement systems are governed by rules adopted by the Public Employees' Retirement Board (Section 2-15-1009, MCA). Board members, appointed by the Governor for five-year terms, consist of three public employees active in the retirement system, one retired employee, and two members at large.

Current Level Budget

The current level budget increases about three percent over the 1991 biennium. The 1993 biennium personal services costs are higher than the 1991 biennium due to vacancy savings in fiscal 1990. Annual personal services costs in the

1993 biennium are lower than the fiscal 1991 appropriation due to staff turnover and filling positions at a lower pay level.

Actual fiscal 1990 operating expenses include \$83,052 appropriated by the 1989 legislature for enhancements to the mainframe batch computer system that tracks employee contributions to the state retirement system. Current level does not include this one-time expenditure for computer programming. Other operating cost increases partially offset this reduction including: 1) added authority for medical consulting services to advise the board on disability retirement applications; 2) increases in the actuarial contract; 3) the cost of programming needed to keep the mainframe system running; 4) audit fees; and 5) insurance costs. Fiscal 1991 operating costs are much lower than other fiscal years shown in the table above, since a biennial appropriation for contracted services which will be partially expended in fiscal 1991, is not included. The comparable current level cost is allocated equally between years in the 1993 biennium.

The program is funded from interest earned on investments held in trust for the retirement systems.

The Executive Budget contains the following budget modifications.

PUBLIC EMPLOYEES' RETIREMENT DIVISION

Executive Budget Modifications

1993 Biennium

<u>Budget Modifications</u>	<u>FTE</u> <u>FY92</u>	<u>FTE</u> <u>FY93</u>	<u>General</u> <u>Fund</u>	<u>Other</u> <u>Funds</u>	<u>Total</u>
1) PERD: Rewrite System				\$429,806	\$429,806
2) Program Improvements				<u>107,339</u>	<u>107,339</u>
Total				\$537,145	\$537,145

Executive Budget Modifications

Rewrite Data Processing System

The Executive Budget includes \$325,000 in retirement fund authority in fiscal 1992 to design and implement an on-line computer system and \$104,806 over the biennium to run the existing system. The new system would replace the 15 year old mainframe batch system that accounts for payments from active (employed) members of the retirement system. The existing computer system is difficult to modify and requires manual accounting for some financial transactions that cannot be incorporated into the batch program.

The agency budget request included a personal computer to allow small employers to submit retirement system data on diskette to be uploaded to the

mainframe system, eliminating the manual entry of such data by retirement system employees. The LFA current level budget does not include funds for the PC as it should be considered in conjunction with the new system.

Program Improvements

Several items would be funded from the request for \$107,339 in retirement fund authority included in the Executive Budget. The division would contract to review statutes with the goal of integrating and clarifying retirement laws which have been amended numerous times. Additional office supplies and postage expenses would be covered as new retirees are added each year. Travel expenses for newly appointed board members, living outside of Helena, are higher than the current level budgeted amount. The division will acquire additional space, causing rental costs to rise.

COMPARISON OF EXECUTIVE AND LFA CURRENT LEVELS

TEACHERS' RETIREMENT BOARD

Budget Item	Executive Current Level		LFA Current Level		Executive Over(Under) LFA
	Fiscal 1992	Fiscal 1993	Fiscal 1992	Fiscal 1993	
FTE	11.50	11.50	11.50	11.50	0.00
Personal Services	284,635	284,278	284,635	284,278	0
Operating Expenses	194,341	185,583	192,636	189,812	(2,524)
Equipment	<u>2,089</u>	<u>2,089</u>	<u>2,089</u>	<u>2,089</u>	<u>0</u>
Total Agency	\$481,065	\$471,950	\$479,360	\$476,179	(\$2,524)
<u>Fund Sources</u>					
(Non)expendable Trust	<u>481,065</u>	<u>471,950</u>	<u>479,360</u>	<u>476,179</u>	<u>(2,524)</u>
Total Funds	\$481,065	\$471,950	\$479,360	\$476,179	(\$2,524)

Executive Budget Comparison

The Executive Budget current level is lower than the LFA current level budget by \$2,524 in operating costs due to use of different bases and different inflation rates. The LFA current level includes \$8,121 more in inflationary adjustments than the Executive Budget, which contains a significant rate decrease in computer processing. The LFA current level, based on fiscal 1990 actual expenditures, is \$9,800 higher in contracted services and \$10,000 higher

in travel and communications than the Executive Budget. Conversely, the Executive Budget includes \$24,698 more for supplies than the LFA current level budget, because it uses the fiscal 1991 appropriation as a base.

Executive Budget Modification

In addition to the \$953,015 current level budget for the 1993 biennium, the Executive Budget includes a \$282,800 budget modification for the Teachers' Retirement Board.

TEACHERS' RETIREMENT BOARD

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	11.50	11.50	11.50	11.50	.00
Personal Services	258,673	286,818	284,635	284,278	4.29%
Operating Expenses	215,029	174,409	192,636	189,812	-1.80%
Equipment	<u>13,817</u>	<u>2,089</u>	<u>2,089</u>	<u>2,089</u>	<u>-73.73%</u>
Total Agency	\$487,519	\$463,316	\$479,360	\$476,179	.49%
<u>Fund Sources</u>					
Non-expendable Trust	<u>487,519</u>	<u>463,316</u>	<u>479,360</u>	<u>476,179</u>	<u>.49%</u>
Total Funds	<u>\$487,519</u>	<u>\$463,316</u>	<u>\$479,360</u>	<u>\$476,179</u>	<u>.49%</u>

Agency Description

The Teachers' Retirement System (TRS) administers retirement, disability, and survivor benefits for all state teachers and their beneficiaries (Title 19, Chapter 4, MCA). The Teachers' Retirement Board, comprised of six members, is responsible for the administration of the system (Section 2-15-1010, MCA). The board is composed of the Superintendent of Public Instruction and five members appointed by the Governor. To assist in fulfilling its duties, the board employs a full-time staff.

fiscal 1990 and full implementation of the 1991 biennium pay plan. Annual personal services costs in fiscal 1992 and 1993 are lower than the fiscal 1991 appropriated level due to staff turnover and filling positions at a lower pay level.

Operating costs decrease since one-time expenditures of \$26,591 to update the computer system are removed from the base and mainframe computer rates are being reduced. These decreases are greater than increases for rent, audit fees, and inflationary adjustments.

Equipment includes a bookcase, room partitions, and replacement chairs.

The program is funded from interest on investments held in trust for the TRS.

The Executive Budget includes the following modified budget request.

Current Level Budget

The total current level budget for the 1993 biennium is relatively unchanged from the 1991 biennium. Personal services costs rise due to vacancies in

Executive Budget Modification

1993 Biennium

<u>Budget Modification</u>	<u>FTE FY92</u>	<u>FTE FY93</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
Data Processing & Service Upgrades				\$282,800	\$282,800

TEACHERS' RETIREMENT BOARD

Executive Budget Modification

Data Processing and Service Upgrades

The Executive Budget includes \$282,800 in retirement funds over the biennium to: purchase additional computer processing time; pay increased network charges; maintain, upgrade, and enhance the TRS data base system; microfilm retirement files; and increase in-state travel. The majority of the request (\$225,732) would be expended in

contracted services for systems development and computer processing charges. The modification includes \$18,000 in computer network fees, which duplicates network rate increases already included in the current level Executive Budget. The request also includes \$18,593 in fiscal 1992 and \$12,400 in fiscal 1993 to purchase two personal computers and other computer hardware, six replacement desk chairs, three replacement tape calculators, and a new credenza.

COMPARISON OF EXECUTIVE AND LFA CURRENT LEVELS

DEPARTMENT OF MILITARY AFFAIRS

Budget Item	Executive Current Level		LFA Current Level		Executive Over (Under) LFA
	Fiscal 1992	Fiscal 1993	Fiscal 1992	Fiscal 1993	
FTE	97.75	97.75	97.75	97.75	0.00
Personal Services	2,610,907	2,612,767	2,598,807	2,600,444	24,423
Operating Expenses	2,516,075	2,515,619	2,296,738	2,320,902	414,054
Grants	1,000,000	1,000,000	2,000,000	2,000,000	(2,000,000)
Benefits and Claims	2,280	2,280	2,280	2,280	0
Total Agency	\$6,129,262	\$6,130,666	\$6,897,825	\$6,923,626	\$(1,561,523)
<u>Fund Sources</u>					
General Fund	2,011,475	2,012,888	1,973,151	1,981,516	69,696
State Revenue Fund	12,000	12,000	0	0	24,000
Federal Revenue Fund	4,105,787	4,105,778	4,924,674	4,942,110	(1,655,219)
Total Funds	\$6,129,262	\$6,130,666	\$6,897,825	\$6,923,626	\$(1,561,523)

Executive Budget Comparison

The LFA current level budget is \$1.5 million higher than the current level Executive Budget largely due to the amount budgeted for grants, which include federal emergency pass-through funds to local governments. The LFA current level continues the grant budget at the amount appropriated by the 1989 legislature, while the Executive Budget reduces it by \$2 million over the biennium.

The Executive Budget current level is \$438,477 higher than the LFA current level in personal services and operating costs.

Overtime Benefits--Air National Guard

The difference in personal services between the Executive and LFA current level budgets is the amount budgeted for overtime for federally-funded firefighters in the Air National Guard program. The Executive Budget contains \$24,423 more for overtime and overtime benefits for these positions.

General Fund in Personal Services--Army National Guard Program

House Bill 100 states that it is the intent of the legislature that the cur-

rent level personal services general fund request in the Army National Guard program not exceed \$186,066 in fiscal 1992 and \$185,640 in fiscal 1993. According to OBPP staff, the current level Executive Budget includes \$202,510 of general fund in fiscal 1992 and \$201,737 in 1993, or a total of \$32,541 general fund above the legislative limit for the biennium. There is no way to document personal services funding for this program as the budget also includes operating expenses funded with general fund.

Operating Expenses

The Executive Budget current level includes \$414,054 more for operating expenses for two reasons:

1) Using the fiscal 1991 appropriation as its base increased Executive Budget operating expenses by approximately \$106,000 over the LFA current level, which was based on fiscal 1990 actual expenditures.

2) The Executive Budget includes \$445,000 in expanded utilities, communications, and training costs that were added by budget amendment in the 1991 biennium. The LFA current level does not include these budget-amended expansions.

DEPARTMENT OF MILITARY AFFAIRS

Offsetting these increases, the LFA current level includes \$136,495 more in inflationary adjustments for the biennium, principally in utility costs.

New General Fund Match

The Executive Budget funds the Air National Guard program at 25 percent general fund and 75 percent federal funds. The LFA current level maintains funding for the program at a 20 percent general fund match, in keeping with the level authorized by the 1989 legislature. The difference in funding ratios adds about \$57,000 more general fund to the Executive Budget request compared to LFA current level.

Continuation of RIT Authority

The 1989 legislature approved \$12,000 of state special revenue authority from the

Resource Indemnity Trust Fund to provide a state match for a federal hazardous materials training grant. The conditions of the grant award allowed the department to use existing expenditures as state match, eliminating the need for the state special revenue appropriation in the 1993 biennium. The Executive Budget continues this state special revenue appropriation.

Executive Budget Modifications

In addition to the \$12.3 million current level budget for the 1993 biennium, the Executive Budget includes \$380,000 in budget modifications.

DEPARTMENT OF MILITARY AFFAIRS

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	97.75	97.75	97.75	97.75	.00
Personal Services	2,315,211	2,603,156	2,598,807	2,600,444	5.71%
Operating Expenses	2,237,059	2,308,602	2,296,738	2,320,902	1.58%
Equipment	10,419	0	0	0	-100.00%
Grants	763,182	2,000,000	2,000,000	2,000,000	44.76%
Benefits and Claims	2,280	2,280	2,280	2,280	.00%
Total Agency	\$5,328,151	\$6,914,038	\$6,897,825	\$6,923,626	12.90%
Fund Sources					
General Fund	1,944,003	2,023,966	1,973,151	1,981,516	-.34%
State Revenue Fund	0	12,000	0	0	-100.00%
Federal Revenue Fund	3,384,148	4,878,072	4,924,674	4,942,110	19.42%
Total Funds	\$5,328,151	\$6,914,038	\$6,897,825	\$6,923,626	12.90%

Agency Description

The Department of Military Affairs oversees all activities of the Army and Air National Guard, Disaster and Emergency Services Division, and Veterans' Affairs Division. The department is administered by the Adjutant General and his staff, as provided for in Section 2-15-1202, MCA. The department manages a joint federal-state program that keeps in readiness trained and equipped military organizations for the Governor in the event of a state emergency and the President in the event of a national emergency. Federal agencies control the military strength and mobilization missions of the Montana Guard. The department also plans for and coordinates state responses in disaster and emergency situations (Title 10, Chapter 3, MCA). The department manages and cooperates with state and federal agencies in providing statewide services for discharged veterans and their families (Title 10 Chapter 2, MCA).

Current Level Budget

The current level budget for the agency increases 13 percent over the 1991 biennium. However, most of the growth is in federal authority for pass-through grants to local governments in the event

of emergencies or disasters. If these grants are removed, the biennial change is less than 3 percent.

Personal services costs rise due to vacancy savings realized in fiscal 1990 and continuation of the fiscal 1991 pay plan increases in the 1993 biennium. Several programs realized significant vacancy savings in fiscal 1990.

Total agency operating costs increase slightly, due mainly to inflation in utility costs. Operating costs in fiscal 1992 and 1993 are lower than fiscal 1991 largely due to a federal grant anticipated at a higher amount than was actually received.

Current level general fund declines over the biennium as a result of expenditure and funding patterns in the Army National Guard and Disaster Coordination Response programs. Several state-supported expenses in the Army National Guard program (such as insurance) are lower in the current level budget, and more operating expenses are covered by federally funded contracts. Federal support for travel to hazardous materials training in the Disaster Coordination Response program reduces the proportional share of general fund in that program.

There is no current level funding from state special revenue in the 1993

DEPARTMENT OF MILITARY AFFAIRS

biennium. The 1989 legislature appropriated state funds to match an anticipated federal hazardous materials training grant. Actual grant conditions

allowed the department to use existing expenditures as a match, eliminating the need for the state special revenue match.

Executive Budget Modifications

1993 Biennium

<u>Budget Modifications</u>	<u>FTE FY92</u>	<u>FTE FY93</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
1) Army Guard Repair and Maintenance			\$324,000	\$0	\$324,000
2) Air Guard Repair and Maintenance			<u>14,000</u>	<u>42,000</u>	<u>56,000</u>
Total			\$338,000	\$42,000	\$380,000

The Executive Budget includes the budget modifications listed above, which are

discussed in more detail in the program narratives.

ADMINISTRATION PROGRAM

<u>Budget Item</u>	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	4.50	4.50	4.50	4.50	.00
Personal Services	145,204	152,066	160,885	160,502	8.11%
Operating Expenses	58,962	60,326	62,195	62,716	4.71%
Equipment	<u>599</u>	<u>0</u>	<u>0</u>	<u>0</u>	-100.00%
Total Program	\$204,765	\$212,392	\$223,080	\$223,218	6.99%
<u>Fund Sources</u>					
General Fund	<u>204,765</u>	<u>212,392</u>	<u>223,080</u>	<u>223,218</u>	<u>6.99%</u>
Total Funds	\$204,765	\$212,392	\$223,080	\$223,218	6.99%

Program Description

The Administration program is the primary administrative support organization for the agency, including financial management, budgeting, personnel, communications supervision, and other administrative activities. It provides management support and supervision for the Army and Air National Guard programs, emergency and disaster programs, and administrative support to the Veterans' Affairs Division. The program also disburses funds to support the operation of the departmental headquarters.

Current Level Budget

The current level budget increases 7 percent over the 1991 biennium budget. Personal services show the largest growth due to vacancy savings realized in fiscal 1990, the continuation of the fiscal 1991 pay plan increase in the 1993 biennium, and authorized upgrades for two positions. Operating expenditures rise due to increases in audit fees and a \$5,211 inflationary increase in utility costs during the biennium.

ARMY NATIONAL GUARD PROGRAM

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	16.50	16.50	16.50	16.50	.00
Personal Services	280,926	389,281	387,357	387,533	15.62%
Operating Expenses	1,454,075	1,414,450	1,443,524	1,459,531	1.20%
Equipment	3,973	0	0	0	-100.00%
Benefits and Claims	2,280	2,280	2,280	2,280	.00%
Total Program	\$1,741,254	\$1,806,011	\$1,833,161	\$1,849,344	3.81%
<u>Fund Sources</u>					
General Fund	932,227	962,965	907,828	915,406	-3.80%
Federal Revenue Fund	809,027	843,046	925,333	933,938	12.54%
Total Funds	\$1,741,254	\$1,806,011	\$1,833,161	\$1,849,344	3.81%

Program Description

The Army National Guard program sustains a trained and equipped military organization for use in the event of a state or national emergency. Program staff coordinate, plan, and implement training for guard personnel. The program is a joint state/federal effort with state responsibilities including maintenance of all National Guard facilities.

Current Level Budget

The 1993 biennium current level is 3.8 percent higher than the 1991 biennium due primarily to increases in personal services and inflation in utility costs. Personal services costs are higher for the 1993 biennium due to vacancy savings in fiscal 1990 and continuation of the fiscal 1991 pay plan increase in the 1993 biennium.

Utility costs comprise a major portion of the operations budget for this program, about 28 percent of fiscal 1990 expenditures. Utility costs were reduced by \$23,000 for accrued but unpaid bills as of November 1, 1990. The current level budget contains an adjustment for annualization of utility costs for new facilities coming on-line in the 1991 biennium.

The benefits and claims budget consists of payments to a national guardsman injured in a prison riot in 1954.

Program funding includes federal and state funds. Depending on the use of the facility, operating costs must be paid entirely by federal funds, entirely by the state, or as a shared responsibility with the state contributing 25 percent of the cost. Funding of personal services depends upon the time spent maintaining various facilities. Federal support of communications is established by a contract with the federal government, with the state responsible for costs above the federally supported level.

Current level general fund is lower than the 1991 biennium as several costs that are 100 percent state funded (such as insurance) decline and costs that are fully or partially federally funded increase.

House Bill 100 states that it is the legislature's intent that the current level personal services general fund request for this program not exceed \$186,066 in fiscal 1992 and \$185,640 in fiscal 1993. The LFA current level funds personal services according to legislative intent.

ARMY NATIONAL GUARD PROGRAM

Executive Budget Modifications

Army Guard Repair and Maintenance

The Executive Budget includes \$324,000 in general fund authority for the biennium in addition to current level expenditures of about \$503,000 to repair and maintain existing Army Guard facilities. Funding for repair and maintenance of the facilities is determined by the type of facility.

Upkeep for armories is 100 percent state funded; shop and annex repair is funded 75 percent federal and 25 percent state; and maintenance of training sites is 100 percent federally funded. The repairs to be financed with the modified budget request include: rebuilding kitchens, painting the exterior and interior of armories, roof maintenance, lead removal at firing ranges, and heating system maintenance.

AIR NATIONAL GUARD PROGRAM

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	37.00	37.00	37.00	37.00	.00
Personal Services	912,808	991,058	991,389	994,701	4.32%
Operating Expenses	<u>547,688</u>	<u>564,990</u>	<u>573,680</u>	<u>581,513</u>	<u>3.82%</u>
Total Program	\$1,460,496	\$1,556,048	\$1,565,069	\$1,576,214	4.14%
<u>Fund Sources</u>					
General Fund	127,740	136,849	136,404	137,932	3.68%
Federal Revenue Fund	<u>1,332,756</u>	<u>1,419,199</u>	<u>1,428,665</u>	<u>1,438,282</u>	<u>4.18%</u>
Total Funds	\$1,460,496	\$1,556,048	\$1,565,069	\$1,576,214	4.14%

Program Description

The Air National Guard program maintains a trained and equipped military organization for use in the event of a state or national emergency. The program staff provides clerical, facilities maintenance, and fire protection support to the Air National Guard base at Gore Hill near Great Falls.

Program funding is a combination of general and federal funds. Federal funds support all personal services costs for firefighters, payroll service fees, and a contract with the Great Falls Airport for firefighter support. All remaining personal services and operating costs are funded 80 percent federal and 20 percent general fund.

Executive Budget Modification

Air Guard Maintenance and Repair

Current Level Budget

The 1993 biennium current level is 4.1 percent higher than the 1991 biennium, due primarily to increases in personal services and inflationary adjustments for utility costs. Personal services rise due to vacancy savings in fiscal 1990 and the continuation of the fiscal 1991 pay increase in the 1993 biennium. Inflationary adjustments in utility costs add \$18,825 to operating costs in fiscal 1992 and \$26,611 in fiscal 1993.

The Executive Budget adds \$14,000 general fund and \$42,000 federal authority for the biennium to fund maintenance projects at Gore Hill which have been deferred over the past several years. Projects include: repair and replace fire hydrants; seal road cracks; repair and paint roofs; clean, paint, and repair walls; and replace interior lock sets. Current level expenditures for repair and maintenance are about \$132,000 annually.

DISASTER COORDINATION RESPONSE

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	13.00	13.00	13.00	13.00	.00
Personal Services	374,625	408,360	394,376	393,656	.64%
Operating Expenses	72,152	133,120	78,089	77,885	-24.02%
Equipment	<u>4,140</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>-100.00%</u>
Total Program	\$450,917	\$541,480	\$472,465	\$471,541	-4.88%
<u>Fund Sources</u>					
General Fund	219,549	232,058	218,788	218,322	-3.21%
State Revenue Fund	0	12,000	0	0	-100.00%
Federal Revenue Fund	<u>231,368</u>	<u>297,422</u>	<u>253,677</u>	<u>253,219</u>	<u>-4.14%</u>
Total Funds	\$450,917	\$541,480	\$472,465	\$471,541	-4.88%

Program Description

The Disaster Coordination and Response program staff prepare, update, coordinate, and test all state emergency preparedness, response, and recovery plans. The program, working through four district representatives, provides coordination and operational, technical, administrative, and training support for each county. Every county is responsible for adopting an emergency response plan and each has a full or part-time county coordinator. Operating 24 hours a day, seven days a week, program staff coordinate and administer all state and federal response and recovery actions to any disaster beyond local governments' response and recovery capabilities. The program staff also administer all federal money passed through to eligible political subdivisions. Counties are eligible for 50 percent reimbursement of costs related to civil defense.

Current Level Budget

The 1993 biennium current level is lower than the 1991 biennium because the amount budgeted in operating costs for a federal hazardous waste training grant in fiscal 1991 was substantially higher than the amount received. Vacancy savings in fiscal 1990 and the continuation of the fiscal 1991 pay plan

increase in the 1993 biennium account for the small increase in personal services costs. Personal services costs in fiscal 1992 and 1993 are lower than the budgeted amount in fiscal 1991 due to staff turnover. Newly hired staff is paid at a lower amount than the positions were budgeted for in the 1991 biennium.

Program funding is equally split between federal and general funds, with two exceptions. Payroll service fees and travel to hazardous waste training are funded entirely by federal grants. Current level general fund declines from the 1991 biennium because some fiscal 1990 expenses associated with publication of the draft emergency preparedness plan were fully state funded as the plan had not received final federal approval. Federally funded travel is increased in the 1993 biennium to allow the program to use the full allocation available.

During the 1991 biennium, state special revenue funds were budgeted as a state match in anticipation of receipt of a \$60,000 federal hazardous waste training grant. The actual grant award received was \$25,000. The agency was allowed to match federal funds with existing expenditures, eliminating the need for the state special revenue match.

VETERAN'S AFFAIRS PROGRAM

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	18.75	18.75	18.75	18.75	.00
Personal Services	401,206	438,009	440,240	439,739	4.86%
Operating Expenses	63,537	86,895	96,150	96,252	27.90%
Equipment	<u>1,112</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>-100.00%</u>
Total Program	\$465,855	\$524,904	\$536,390	\$535,991	8.24%
<u>Fund Sources</u>					
General Fund	459,722	479,702	487,051	486,638	3.65%
Federal Revenue Fund	<u>6,133</u>	<u>45,202</u>	<u>49,339</u>	<u>49,353</u>	<u>92.25%</u>
Total Funds	\$465,855	\$524,904	\$536,390	\$535,991	8.24%

Program Description

The Veteran's Affairs Division provides a statewide service of assisting discharged veterans and their families, cooperating with state and federal agencies having to do with the affairs of veterans and their families, and promotes the general welfare of veterans with information on veterans' benefits. The program also administers the veterans' cemetery located at Fort Harrison in Helena.

increases in personal services costs and operating costs for the veterans' cemetery. Vacancy savings in fiscal 1990 and the full implementation of the pay plan in the 1993 biennium cause personal services to rise. The same amount of federally funded operating costs is included for the veterans' cemetery as was appropriated by the 1989 legislature. Other operating cost increases include audit fees and inflationary adjustments.

Current Level Budget

The current level budget is higher than that for the 1991 biennium due to in-

Federal funds support the cemetery operations and a 0.75 FTE cemetery sexton. The balance of the program is supported by general fund.

DISASTER FUND

<u>Budget Item</u>	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	.00	.00	.00	.00	.00
Total Program	\$0	\$0	\$0	\$0	.00%
<u>Fund Sources</u>					
Total Funds	\$0	\$0	\$0	\$0	.00%

Program Description

The Governor, upon declaration of an emergency or disaster, can authorize expenditures of up to \$2,000,000 per biennium from the general fund when such a condition justifies the expenditure (Sections 10-3-311 and 10-3-312, MCA).

Current Level Budget

This program is funded by a statutory appropriation of general fund activated by the Governor's declaration of an emergency. There were no expenditures in fiscal 1990.

COMPARISON OF EXECUTIVE AND LFA CURRENT LEVELS

CRIME CONTROL DIVISION

Budget Item	Executive Current Level		LFA Current Level		Executive Over (Under) LFA
	Fiscal 1992	Fiscal 1993	Fiscal 1992	Fiscal 1993	
FTE	16.00	16.00	16.00	16.00	0.00
Personal Services	483,505	483,119	483,505	483,119	0
Operating Expenses	169,539	170,434	153,499	154,042	32,432
Grants	2,133,500	2,133,500	2,133,500	2,133,500	0
Benefits and Claims	<u>375,000</u>	<u>375,000</u>	<u>375,000</u>	<u>375,000</u>	<u>0</u>
Total Agency	\$3,161,544	\$3,162,053	\$3,145,504	\$3,145,661	\$32,432
<u>Fund Sources</u>					
General Fund	448,860	449,376	432,877	433,034	32,325
State Revenue Fund	433,785	433,779	433,665	433,665	234
Federal Revenue Fund	<u>2,278,899</u>	<u>2,278,898</u>	<u>2,278,962</u>	<u>2,278,962</u>	<u>(127)</u>
Total Funds	\$3,161,544	\$3,162,053	\$3,145,504	\$3,145,661	\$32,432

Executive Budget Comparison

The LFA current level is \$32,432 less than the Executive Budget, with the entire difference in operating expenses. The Executive Budget includes \$24,560 for the biennium for the proposed Department of Administration's data processing network system. Since this is a proposed budget modification, it is not included in the LFA current level. (This issue is discussed in the Department of Administration's budget.) The remaining difference in operating costs is due to the different bases used in preparing the two budgets.

Executive Budget contains \$2.5 million and 2.0 FTE in modified budget requests for the Crime Control Division. These budget modifications are listed and discussed in more detail in the following agency narrative.

The Executive Budget does not include an additional budget modification for 5.0 FTE and \$428,427 general fund requested by the Board of Crime Control. Since the Board and the Attorney General plan to present this budget modification to the legislature, details on this request are provided in the following agency narrative.

Budget Modifications

In addition to the \$6.3 million current level budget for the 1993 biennium, the

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<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	16.00	16.00	16.00	16.00	.00
Personal Services	449,102	503,604	483,505	483,119	1.46%
Operating Expenses	155,583	151,193	153,499	154,042	.25%
Equipment	3,659	0	0	0	-100.00%
Grants	1,580,795	2,529,500	2,133,500	2,133,500	3.81%
Benefits and Claims	<u>343,390</u>	<u>375,000</u>	<u>375,000</u>	<u>375,000</u>	<u>4.40%</u>
Total Agency	\$2,532,529	\$3,559,297	\$3,145,504	\$3,145,661	3.27%
<u>Fund Sources</u>					
General Fund	409,615	446,597	432,877	433,034	1.13%
State Revenue Fund	281,504	433,665	433,665	433,665	21.28%
Federal Revenue Fund	<u>1,841,410</u>	<u>2,679,035</u>	<u>2,278,962</u>	<u>2,278,962</u>	<u>.83%</u>
Total Funds	\$2,532,529	\$3,559,297	\$3,145,504	\$3,145,661	3.27%

Agency Description

The mission of the Crime Control Division is to promote public safety by strengthening the coordination and performance of the criminal and juvenile justice system and by increasing citizen and public official support for and involvement in criminal justice. The Crime Control Division was created by Section 2-15-2006, MCA. Under the direction of a supervisory Board of Crime Control appointed by the Governor, the Crime Control Division provides financial support, technical assistance, and supportive services to state and local criminal justice agencies. Technical assistance includes such areas as jail improvement, management training, statistical analysis, Crimestoppers, victim/witness assistance, and statewide crime prevention support. Supportive services include: the Montana Uniform Crime Reporting System, which reports major offenses to the F.B.I. and provides management information for local law enforcement; training for juvenile justice system personnel; Peace Officer Standards and Training, which promulgates standards and training for the certification of all peace officers in the State of Montana; and the

criminal justice data base, which provides an automated central repository for criminal and juvenile justice system data. The board administers and awards several grant programs, including the Juvenile Justice and Delinquency Prevention Act, the Victim/Witness Assistance Act, the State and Local Law Enforcement Assistance Act, the Narcotics Control Assistance Program, and the State Crime Victims' Compensation program.

Current Level Budget

The agency's 1993 biennium current level increases over 3 percent as compared to the 1991 biennium due to increased pass-through grants, benefits, and claims. In fiscal 1990, the entire grant funds appropriated were not spent, so the unspent federal funds will carry over to the 1993 biennium. The \$396,000 decrease in federal grant funds from fiscal 1991 appropriated levels reflects the elimination of the Justice Assistance Block Grant program, which was appropriated in fiscal 1991 but for which funds were never received. Table 1 shows the pass-through grants and benefits program funding included in current level.

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Table 1
Pass-Through Grants & Benefits
1993 Biennium

<u>Pass-Through Grant Funds</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
Victims' Assistance	\$ 224,000	\$ 224,000
Criminal Justice Assistance Block Grants	0	0
Juvenile Justice	242,500	242,500
Drug Education/Prevention	427,000	427,000
Drug Enforcement Block Grant	<u>\$1,240,000</u>	<u>\$1,240,000</u>
Total Pass-Through Grants	\$2,133,500	\$2,133,500
<u>Crime Victims' Compensation Benefits</u>		
State Special Revenue	<u>\$ 375,000</u>	<u>\$ 375,000</u>
Total Grants and Benefits Funds	<u>\$2,508,500</u>	<u>\$2,508,500</u>

The grant amounts shown in Table 1 are identical to the amounts appropriated for the 1991 biennium, except for the discontinuance of the Justice Assistance Block Grants. The agency has submitted modified budget requests for increased spending authority for these grant programs.

Personal service costs increase slightly due to vacancy savings in fiscal 1990 and the fiscal 1991 pay plan increase which continues in the 1993 biennium.

In addition to federal funding for the pass-through grant programs, federal funding is provided for juvenile justice programs and for administration of the Juvenile Justice and Drug Enforcement Block Grant programs. State special revenue funds crime victims' compensation benefits and administration. Funding for all other Crime Control Division activities is general fund.

Issue

Crime Control Division Administrative Support

The Crime Control Division is a separate state agency, governed by a supervisory board. By statute, it is attached to the Department of Justice for administrative purposes. However, the department provides very few administrative services to the division. The Crime Control Division employs a separate staff to perform its own centralized service functions, including payroll, accounting, budgeting, and general administrative support.

The Department of Justice offers centralized administrative and fiscal support for the many programs in the agency through its Central Services Division. Use of centralized support services within an agency provides a more efficient and economical means of providing common services, allows development of specialized expertise in those areas, and places fiscal responsibility and control in one place.

The Crime Control Division has at least seven administrative, accounting, and

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secretarial positions. Most of these positions have duties both in support services and program management, including grant administration. If support services commonly provided by central services programs were transferred to the Department of Justice Central Services Division, a minimum of one, and possibly two administrative/accounting positions could be eliminated.

During the 1989 session, the House Subcommittee on General Government and Highways discussed the possible transfer of functions of the Crime Control Division to the Department of Justice. At that time, the Attorney General, the director of the Board of Crime Control, and other law enforcement officials requested more time to provide the new Attorney General an opportunity to consider department reorganization and possible savings from consolidation of

responsibilities. A reorganization of the Department of Justice in the 1991 biennium did not include the Crime Control Division. While a closer working relationship between the two agencies seems to have developed, there are still no significant support services provided by the Department of Justice to the Crime Control Division. The division still does all of its own accounting, budgeting, word processing, payroll, clerical, grant administration, and purchasing functions.

The Crime Control Division has requested 2.0 additional FTE in modified budget requests for the 1993 biennium to administer existing grant programs. The positions would be partially funded by general fund. If the division used the Department of Justice's Central Services Division for most administrative functions, it may be able to perform the grant administration within existing FTE.

Executive Budget Modifications

1993 Biennium

<u>Budget Modifications</u>	<u>FTE</u> <u>FY92</u>	<u>FTE</u> <u>FY93</u>	<u>General</u> <u>Fund</u>	<u>Other</u> <u>Funds</u>	<u>Total</u>
1) Narcotics Control	1.0	1.0	\$81,000	\$1,844,203	\$1,925,203
2) Juvenile Justice			15,000	42,000	57,000
3) Victim Assistance	1.0	1.0	0	271,101	271,101
4) Drug Education/DARE	—	—	—	253,876	253,876
Total	2.0	2.0	\$96,000	\$2,411,180	\$2,507,180

The Executive Budget includes the budget modifications listed in the table and discussed below.

Narcotics Control/Justice Improvement

The Executive Budget includes \$1,925,203 for the 1993 biennium for increased federal Narcotics Control Grant Program administration. Funding would include \$81,000 general fund and \$1,844,203 of federal drug enforcement assistance funds.

The amount of federal drug enforcement assistance pass-through grant funds would increase from \$1,240,000 each year of the 1991 biennium to \$2,225,000 each year of the 1993 biennium. (The total grant funds appropriated for fiscal 1991 were increased by budget amendment to \$2,034,000.)

The state match (to be paid by grantees), which was 25 percent in the 1991 biennium, is scheduled under current federal law to increase to 50 percent in fiscal 1993, although

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Congress is considering a continuation of the 25 percent match.

The general fund portion of the request is calculated to be a 25 percent state match in fiscal 1992 and a 50 percent match in fiscal 1993 for grant administration. The administrative funds would be used primarily to add a 1.0 FTE program evaluator, who would monitor and evaluate the subgrants. The agency requests this position since grant funds have increased over 250 percent and the number of subgrantees has tripled in the last three years. The match requirement has been passed on to grant fund recipients in the past.

Juvenile Justice Support Services

The Executive Budget includes \$28,500 each year of the 1993 biennium for increased Juvenile Justice Support Services administration. The additional funds in this request would be used for increased juvenile planning, advisory, and reporting services. The agency requests these increases to fund several years of increasing juvenile support responsibilities that have not been matched by increases in operating revenues. The increased support services funds will be used to complete a juvenile justice reporting system to comply with federal requirements.

Funding for this request would include \$7,500 in additional general fund and \$21,000 in federal funds diverted from pass-through grant funds to administrative costs.

Victim Assistance Support Services

The Executive Budget includes \$137,116 in fiscal 1992 and \$133,985 in fiscal 1993 for increased victim assistance support services. Funding would include state special revenue of \$29,116 in fiscal 1992, \$25,985 in fiscal 1993, and \$108,000 federal crime victim assistance funds each year of the biennium.

The amount of federal victim assistance pass-through grant funds will increase from \$224,000 each year of the 1991 biennium to \$332,000 each year of the 1993 biennium. The funds are used to support direct victim assistance programs, including safe homes for victims of domestic violence, programs for abused children, and sexual assault programs. The crime victims benefits state special revenue fund would be used to provide 1.0 FTE for administration of the Victim of Crimes Act and programs (including grant administration) to allow increased evaluation and monitoring. New revenues would be derived for this purpose from increased criminal fines, penalties, and forfeitures, requiring a change in the State Victims' Compensation Act. None of the federal funds can be used for grant administration.

Drug Education - Drug Free Schools

The Executive Budget includes authority to spend \$126,938 federal drug education funds each year of the biennium for increased drug education pass-through grants and administrative costs.

The amount of federal drug education pass-through grant funds would increase from \$427,000 in each year of the 1991 biennium to \$542,218 each year of the 1993 biennium. The funds are used for prevention/education efforts for high-risk youth. The majority of the grant funds would be used in support of Project Drug Abuse Resistance Education (DARE).

Grant administration costs would increase \$11,720 per year, entirely from federal funds. The administrative funds would be used for operating expenses to continue to monitor and implement the DARE and other drug education programs. In addition to the budget modifications included in the Executive Budget, the Attorney General has indicated that he and the Board of Crime Control will present the following budget modification to the legislature.

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Elected Official Budget Modification

1993 Biennium

<u>Budget Modifications</u>	<u>FTE FY92</u>	<u>FTE FY93</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
1) Justice Planning Unit	5.0	5.0	\$428,427		\$428,427

Criminal Justice Planning Unit

The Board of Crime Control has requested \$428,427 general fund and 5.0 FTE in the 1993 biennium to establish a Criminal Justice Planning Unit. The task force would be formed to respond to the concern that the criminal justice system faces a myriad of difficult issues that

cannot be effectively resolved without a coherent plan encompassing the full spectrum of justice functions. The planning unit would review the statewide justice system and develop a unified, comprehensive plan for reorganization of the state justice system to present to the 1993 legislature.

COMPARISON OF EXECUTIVE AND LFA CURRENT LEVELS

HIGHWAY TRAFFIC SAFETY

Budget Item	Executive Current Level		LFA Current Level		Executive Over(Under) LFA
	Fiscal 1992	Fiscal 1993	Fiscal 1992	Fiscal 1993	
FTE	8.50	8.50	8.00	8.00	0.50
Personal Services	264,143	263,866	251,204	250,954	25,851
Operating Expenses	198,719	198,724	182,941	182,706	31,796
Equipment	3,000	3,000	1,500	1,500	3,000
Local Assistance	400,000	400,000	200,000	200,000	400,000
Grants	<u>520,000</u>	<u>520,000</u>	<u>520,000</u>	<u>520,000</u>	<u>0</u>
Total Agency	\$1,385,862	\$1,385,590	\$1,155,645	\$1,155,160	\$460,647
<u>Fund Sources</u>					
General Fund	400,000	400,000	200,000	200,000	400,000
State Revenue Fund	76,051	76,039	71,010	70,931	10,149
Federal Revenue Fund	<u>909,811</u>	<u>909,551</u>	<u>884,635</u>	<u>884,229</u>	<u>50,498</u>
Total Funds	\$1,385,862	\$1,385,590	\$1,155,645	\$1,155,160	\$460,647

Executive Budget Comparison

The Executive Budget is \$460,647 higher than LFA current level, primarily due to the inclusion of \$400,000 in additional local assistance grants in the 1993 biennium.

Personal services are lower in LFA current level due to the elimination of a vacant 0.5 FTE program specialist and personal services of \$25,851. This position is included in the Executive Budget.

The LFA current level is \$31,796 lower than the Executive budget in operating expenses. The biennial differences are in: 1) Department of Administration's network costs of \$6,560, which are not in LFA current level; 2) promotional aids (\$7,000 more included in the Executive Budget) which are held at historical cost levels in LFA current level; 3) indirect costs of \$9,000, which are not included in LFA current level; and 5) budget base differences of \$9,240.

The LFA equipment budget, which is \$3,000 lower, reflects historical expenditures of the agency.

Issue

Funding Switch

Since federal grant funds of \$400,000 per biennium received for fiscal years 1987 through 1991 will not be available in the 1993 biennium, they are not included in either budget. The Executive Budget, however, includes replacement funding from the general fund, utilizing revenues from a proposed increase in the driver license reinstatement fee from \$50 to \$100. The current license reinstatement fees are deposited in the general fund and then passed-through to counties which have an established drinking and driving prevention program. LFA current level retains the present \$400,000 biennial level of pass-through grant funds as funded by the current driver license reinstatement fee. It does not include general fund to replace the lost federal revenue. A statutory change would be necessary to increase the driver license reinstatement fee.

HIGHWAY TRAFFIC SAFETY

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	8.50	8.50	8.00	8.00	-.50
Personal Services	224,534	275,679	251,204	250,954	.39%
Operating Expenses	184,800	193,378	182,941	182,706	-3.31%
Equipment	2,334	3,000	1,500	1,500	-43.76%
Local Assistance	200,000	200,000	200,000	200,000	.00%
Grants	720,000	720,000	520,000	520,000	-27.78%
Total Agency	\$1,331,668	\$1,392,057	\$1,155,645	\$1,155,160	-15.16%
Fund Sources					
General Fund	200,000	200,000	200,000	200,000	.00%
State Revenue Fund	60,950	76,030	71,010	70,931	3.62%
Federal Revenue Fund	1,070,718	1,116,027	884,635	884,229	-19.11%
Total Funds	\$1,331,668	\$1,392,057	\$1,155,645	\$1,155,160	-15.16%

Agency Description

The Highway Traffic Safety Division was established by Title 61, Chapter 2, MCA, to promote public safety, health, and welfare through efforts directed toward reducing death, injury, and property loss resulting from traffic accidents. Projects are developed and initiated in various levels of government primarily through federal grant funds provided through the division to ensure that a long-term, stable, and statewide program exists. Current program priorities include occupant protection and drinking and driving projects.

Current Level Budget

The agency's 1993 biennium current level decreases 15 percent as compared to the previous biennium. Less than 2 percent of the decrease is in normal operating costs. The remainder results from an anticipated decrease in federal pass-through grant funds. Personal services increases due to vacancy savings and the pay plan increase in fiscal 1991 are nearly offset by the elimination of a 0.5 FTE program specialist position that has been vacant for nearly one year.

Operating expenses are based on fiscal 1990 actual expenditures, except for a reduction in appraiser and secretarial fees and other minor adjustments. The equipment request includes \$2,000 for replacement of older computer components and \$1,000 for software upgrades for the traffic accident data collection system. The reduction in pass-through grant funds is due to the sunset in fiscal 1991 of a five-year federal grant of \$200,000 per year for drunk driving awareness programs.

General fund collected from drivers' license revocation reinstatement fees is appropriated to the Highway Traffic Safety Division for distribution to counties with established drinking and driving prevention programs. Funding for operating costs and federal grants is provided by federal funds from the National Highway Traffic Safety Administration. A 50 percent state match on administration and planning costs comes from the highways state special revenue account. The 19 percent decrease in federal funds reflects the elimination of alcohol countermeasure grant funds.

COMPARISON OF EXECUTIVE AND LFA CURRENT LEVELS

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Budget Item	Executive Current Level		LFA Current Level		Executive Over(Under) LFA
	Fiscal 1992	Fiscal 1993	Fiscal 1992	Fiscal 1993	
FTE	600.50	600.50	600.95	600.95	(0.45)
Personal Services	18,300,761	18,289,096	18,243,759	18,232,756	113,342
Operating Expenses	5,932,131	5,939,098	6,004,694	5,989,139	(122,604)
Equipment	1,385,290	1,273,955	1,360,333	1,241,440	57,472
Debt Service	<u>34,122</u>	<u>34,122</u>	<u>34,122</u>	<u>34,122</u>	<u>0</u>
Total Agency	\$25,652,304	\$25,536,271	\$25,642,908	\$25,497,457	\$48,210
<u>Fund Sources</u>					
General Fund	10,629,171	10,729,579	10,685,520	10,743,287	(70,057)
State Revenue Fund	13,453,979	13,369,875	13,448,142	13,352,941	22,771
Federal Revenue Fund	968,419	835,883	913,946	805,926	84,430
Proprietary Fund	<u>600,735</u>	<u>600,934</u>	<u>595,300</u>	<u>595,303</u>	<u>11,066</u>
Total Funds	\$25,652,304	\$25,536,271	\$25,642,908	\$25,497,457	\$48,210

Executive Budget Comparison

The Executive Budget is \$170,814 higher than the LFA current level in personal services and equipment, but this difference is nearly offset in operating expenses. The Executive Budget includes \$122,604 less for operating expenses than the LFA current level budget, for a net difference of only \$48,210 for the biennium.

Personal Services

The Executive Budget is higher in personal services for two reasons. First, the Executive Budget includes \$100,000 more overtime in the Highway Patrol Division than the LFA current level. The amount of overtime included in the Executive Budget is above the average level in recent years. Second, the Executive Budget includes \$13,140 more for health insurance benefits than the LFA current level. The LFA current level budget does not include health insurance benefits for Highway Patrol Division basic training recruits as they do not receive these benefits. The 0.45 difference in FTE is due to an adjustment in the LFA current level to reflect the actual number of FTE in the County Attorney Payroll program. There is no monetary impact.

Operating Expenses

The Executive Budget is lower than LFA current level in operating expenses for a number of offsetting reasons. The most significant differences are discussed below as "Issues". Other operating expense differences are: 1) the Executive Budget is \$60,798 lower than the LFA current level in funding for computer processing costs; 2) the Executive Budget includes \$4,059 higher audit fees due to the inclusion of a modified budget request in the calculation of the audit fee schedule for the Legislative Auditor's Office; 3) the Executive Budget has \$2,113 more than the LFA current level in inflationary adjustments; and 4) the Executive Budget is \$295,500 higher than LFA current level due to the different bases used in preparing the two budgets. The majority of the base differences are reflected in the budgets of the Highway Patrol Division and the Drug Enforcement Units of the Law Enforcement Services Division.

Equipment

The Executive Budget is higher than the LFA current level in equipment in a number of programs. The Executive Budget generally includes annual equipment purchases in each program's 1993 biennium budget up to the amount of

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the fiscal 1991 biennium equipment appropriation, while the LFA current level budget is based on historical average equipment purchases over the past five years. The equipment included in the Executive Budget is:

1) \$5,600 higher in Legal Services Division, as LFA current level does not include two laptop computers included in the Executive Budget;

2) \$80,542 higher in the Gambling Control Division. The Executive Budget's annual equipment budget is the same as the amount allowed the fiscal 1991 appropriation. Since the fiscal 1991 appropriation included large one-time equipment purchases for the first-year operation of this program, the LFA current level budget does not continue this level;

3) \$100,000 lower in the Highway Patrol Division for equipment other than patrol cars. The LFA current level equipment budget is higher, reflecting the historical average purchases of the division;

4) \$23,750 lower in the Law Enforcement Services Division, as LFA current level allows additional funding for the purchase of a replacement pickup in the Fire Marshal Bureau and replacement investigative equipment in the Drug Enforcement Unit;

5) \$35,080 higher in Data Processing Division. The Executive Budget includes equipment at the fiscal 1991 appropriation level, which included funding for a major upgrade of the Criminal Justice Information Network (CJIN) system;

6) \$60,000 higher in the Forensic Science Division. The LFA current level includes a lower level for replacement laboratory equipment.

Funding

The primary reasons the Executive Budget includes over \$70,057 less general fund is that the LFA current level includes significantly more funding for the Extradition and Transportation of Prisoners program and for the Law

Enforcement Academy Division. Both of these programs are 100 percent general fund. The programs are discussed in the "Issues" section below.

The primary reason the Executive Budget is nearly \$23,000 higher in state special revenue is that it provides a higher equipment budget for the Gambling Control Division, funded from the gambling license fee account.

Federal revenue fund differences are due to higher budgets in the Motor Carrier Safety Assistance Program (MCSAP) and the Drug Enforcement programs in the Executive Budget, due to the difference in bases used in preparing the budgets.

The Executive Budget includes more funding for the Agency Legal Services Division, which is supported by proprietary funds.

Issues

Highway Patrol Prisoner Per Diem

The Executive Budget current level is \$236,242 lower than the LFA current level for prisoner per diem costs in the Highway Patrol Division. The division pays prisoner per diem charges for prisoners arrested by the Patrol and held in local jails. These charges have risen significantly due to 1989 legislation that removed the per day reimbursement limit. Since the increases are expected to be on-going costs, the LFA current level continues them at the fiscal 1990 actual expenditure level in the 1993 biennium. The Executive Budget includes an additional \$220,000 for prisoner per diem in a modified budget request, but even with this modification, the Executive Budget is \$16,242 lower than fiscal 1990 costs.

Academy Operating Costs

The Executive Budget includes \$63,900 more for operating expenses at the Law Enforcement Academy, based on the fiscal 1991 appropriation. However, since the state purchased the Academy buildings in July 1988, costs of operating the facility have been significantly less

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than anticipated when the 1991 biennium appropriation was approved. The LFA current level budget is based on fiscal 1990 actual costs.

Academy Pre-service Course

The Executive Budget current level is \$96,000 lower in the Law Enforcement Academy Division than the LFA current level, which includes the cost of a Pre-service Course at the Academy. This course was first offered in fiscal 1990, in accordance with 1989 legislation authorizing the course. This issue is discussed in more detail in the program narrative.

Transportation of Prisoners

The Executive Budget includes \$89,764 less than the LFA current level for the Extradition and Transportation of Prisoners program, since the Executive Budget for the program is based on the fiscal 1991 appropriation. Fiscal 1990 costs for the program were significantly higher than the fiscal 1991 appropriation, as discussed in the program narrative. The program required a supplemental in fiscal 1990 to fully

fund all transportation needs and is requesting an additional supplemental in fiscal 1991. The LFA current level continues the total actual fiscal 1990 costs (including the supplemental) in the 1993 biennium budget.

Budget Modifications

In addition to the \$51.2 million current level budget for the 1993 biennium, the Executive Budget contains \$2.6 million and 27.0 FTE in modified budget requests for the Department of Justice. These budget modifications are listed in the following agency narrative and discussed in more detail in the program narratives.

The Executive Budget does not include an additional 8 budget modifications for 60.2 FTE and \$5.3 million requested by the Attorney General. Since the Attorney General plans to present these budget modifications to the legislature, details on the modifications are provided in the following agency narrative and discussed in more detail in the program narratives.

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Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	602.00	600.50	600.95	600.95	.45
Personal Services	17,034,808	18,121,559	18,243,759	18,232,756	3.76%
Operating Expenses	5,662,202	5,903,623	6,004,694	5,989,139	3.70%
Equipment	1,596,258	1,332,320	1,360,333	1,241,440	-11.16%
Debt Service	36,453	0	34,122	34,122	87.21%
Total Agency	\$24,329,721	\$25,357,502	\$25,642,908	\$25,497,457	2.92%
<u>Fund Sources</u>					
General Fund	9,795,293	10,370,991	10,685,520	10,743,287	6.26%
State Revenue Fund	13,085,374	13,354,998	13,448,142	13,352,941	1.36%
Federal Revenue Fund	928,609	1,034,951	913,946	805,926	-12.41%
Proprietary Fund	520,445	596,562	595,300	595,303	6.59%
Total Funds	\$24,329,721	\$25,357,502	\$25,642,908	\$25,497,457	2.92%

Agency Description

The Department of Justice, under the direction of the Attorney General, is responsible for statewide legal services and counsel, law enforcement, and public safety, as authorized in Section 2-15-501, MCA. The duties of the department include: 1) providing legal representation for the state and its political subdivisions in criminal appeals; 2) providing legal services and counsel for the state, county, and municipal agencies and their officials; 3) enforcing Montana traffic laws and registering all motor vehicles; 4) enforcing state fire safety codes and regulations; 5) assisting local law enforcement agencies in bringing offenders to justice; 6) managing a statewide system of death investigations and providing scientific analyses of specimens submitted by law enforcement officials, coroners, and state agencies; and 7) providing for the uniform regulation of all gambling activities in the State of Montana.

Current Level Budget

The agency's current level budget increases nearly 3 percent, due primarily to an over \$1.2 million increase in personal services over fiscal 1990 levels. Personal services

increase due to the following: 1) position upgrades for forensic scientists and criminal investigators in the Law Enforcement Services and Forensic Science Divisions, at a cost of over \$100,000 per year; 2) significant vacancy savings experienced in fiscal 1990 (particularly in the Forensic Science Division), which are not budgeted in the 1993 biennium; and 3) the fiscal 1991 pay plan increase which continues in the 1993 biennium. These increases are partially offset by downgrades that occurred in several Highway Patrol uniformed positions and a reduction in overtime costs.

Operating expenses increase 3.7 percent, primarily due to \$107,000 per year increases for the Gambling Control Division over fiscal 1990 levels and inflationary adjustments of \$157,000 in fiscal 1992 and \$139,500 in fiscal 1993 (mainly in gasoline for the Highway Patrol Division). The current level budget for the Gambling Control Division reflects a fully operational program. The program wasn't transferred to the department until October 1990, so only 9 months of operation occurred in base fiscal 1990. Other increases include: 1) the addition of a fourth basic law enforcement training class at the Law Enforcement Academy for students paying their own tuition, at a cost of \$48,000 per year; 2) continuation of the contingency appropriation for Indian

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Legal Jurisdiction legal caseloads at \$38,800 per year; 3) inclusion of federal grant funds in the Law Enforcement Services Division at the 1991 biennium appropriated levels, which is \$31,300 higher than fiscal 1990 expenditures; 4) an increase in the Highway Patrol Officers' subsistence allowance of \$23,000 in fiscal 1992 and \$34,000 in fiscal 1993 to reflect a union agreement; 5) an increase of \$46,800 per year for costs of transporting and extraditing prisoners; and 6) increases in building rent and other fixed costs of \$20,000 in fiscal 1992 and \$26,000 in fiscal 1993. Operating cost increases are partially offset by the elimination of fiscal 1990 one-time costs of over \$120,000, including: 1) federal grants to install the new Commercial Vehicle Operator's License (CVOL) system; 2) an expanded Highway Patrol recruit training course in fiscal 1990; 3) funding for used car leases for undercover investigations; 4) costs of renovation for an expansion of the State Crime Lab facility; and 5) contracted services for a pathologist during a vacancy in the chief medical examiner position in the Forensic Science Division.

Equipment included in current level is predominantly for the Highway Patrol Division for the replacement of 130 patrol cars and for replacement communications and law enforcement equipment.

Debt service in the 1993 biennium is for the purchase of computers in the Data Processing Division.

General fund provides 42 percent of total funds for the Department of Justice and supports all or part of the Legal Services Division (100 percent), Motor Vehicle Division (97 percent), Law Enforcement Services Division (66 percent), County Attorney Payroll pro-

gram (100 percent), Law Enforcement Academy (100 percent), Central Services Division (45 percent), Data Processing Division (74 percent), Extradition and Transportation of Prisoners program (100 percent), and the Forensic Science Division (79 percent). The primary reason for the increase in general fund is the addition of the pre-service course at the Law Enforcement Academy, the increase in extradition and transportation costs for prisoners, and the contingency appropriation for Indian Legal Jurisdiction legal costs.

State special revenue funds provide 52 percent of total agency funding in the 1993 biennium. The primary state special revenue account is the highways special revenue account which supports over 96 percent of the Highway Patrol Division and 46.5 percent of the Central Services Division. In the 1993 biennium, this account provides \$22.1 million of funding to the department. The other major state special revenue funds include the gambling license fee account, which supports all of the Gambling Control Division and part of Central Services. Together these funds provide 93 percent of state special revenue funds in the agency.

Federal funds provide 3.4 percent of total funding for the agency, including \$1.0 million in the Highway Patrol Division to support the Motor Carrier Safety Assistance program (MCSAP) and 65 MPH enforcement squad and \$0.6 million in the Law Enforcement Services Division to support drug enforcement programs. The 12 percent decline in federal funding is due to reductions in federal grants for drug enforcement and for installation of the Commercial Operator's Operating License system.

Proprietary funds, which provide 2.3 percent of total agency funding, are for the operation of the Agency Legal Services Division and support of Central Services Division.

DEPARTMENT OF JUSTICE

Executive Budget Modifications

1993 Biennium

<u>Budget Modifications</u>	<u>FTE FY92</u>	<u>FTE FY93</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
1) Gambling Control Expansion	10.0	10.0		\$1,043,333	\$1,043,333
2) Gambling "Buy" Money				30,000	30,000
3) Dr. License Express Station	8.0	8.0	\$350,660		350,660
4) Additional H/P Officers	8.0	8.0		748,004	748,004
5) Hwy Patrol Handheld Radios				51,000	51,000
6) Added General Investigator	0.75	1.0	79,805		79,805
7) Academy Pre-Service Course			96,000		96,000
8) Data Processing Fee Incr.			109,830		109,830
9) Data Processing Air Cond.			49,400		49,400
Total	26.75	27.0	\$685,695	\$1,872,337	\$2,558,032

The Executive Budget includes the budget modifications listed above. These modifications are discussed in the program narratives.

present the following additional budget modification requests to the 1991 legislature. They are discussed in more detail in the program narratives.

In late November 1990, the Department of Justice indicated that it planned to

Elected Official Budget Modifications

1993 Biennium

<u>Budget Modifications</u>	<u>FTE FY92</u>	<u>FTE FY93</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
1) Appellate Svcs Bureau Chief	1.0	1.0	\$ 118,882		\$ 118,882
2) Attorney, Indian Legal Jur.	1.0	1.0	94,484		94,484
3) Dr. License Express Station	12.2	12.2	579,464		579,464
4) Replacement Aircraft			285,000	\$ 285,000	570,000
5) Gambling Control Expansion	13.0	13.0		1,048,383	1,048,383
6) Fire Marshal Bur. Expansion	31.0	31.0	1,888,162		1,888,162
7) Autom. Fingerprint ID Sys.	2.0	2.0	1,008,000		1,008,000
8) Drug Investigations Program - Permanent Funding			NA	NA	NA
Total	60.2	60.2	\$3,973,992	\$1,333,383	\$5,307,375

LEGAL SERVICES DIVISION

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	25.50	25.50	25.50	25.50	.00
Personal Services	890,312	986,924	990,601	989,277	5.47%
Operating Expenses	177,348	160,841	225,323	220,580	31.85%
Equipment	31,829	13,000	10,175	9,904	-55.21%
Debt Service	2,085	0	0	0	-100.00%
Total Program	\$1,101,574	\$1,160,765	\$1,226,099	\$1,219,761	8.11%
<u>Fund Sources</u>					
General Fund	1,101,574	1,160,765	1,226,099	1,219,761	8.11%
Total Funds	\$1,101,574	\$1,160,765	\$1,226,099	\$1,219,761	8.11%

Program Description

The Legal Services Division provides the Attorney General with legal research and analysis; provides legal counsel for state government officials, bureaus, and boards; provides legal assistance to local governments and Indian tribes; and provides legal assistance, training, and support for county prosecutors. The Legal Services Division is comprised of the County Prosecutor Services Bureau, the Appellate Legal Services Bureau, and the Indian Legal Jurisdiction Section. The Legal Services program consists of the combined Legal Services, Indian Legal Jurisdiction, and County Prosecutor Services programs as presented in the 1991 biennium budget.

Current Level Budget

The Legal Services Division current level budget for the 1993 biennium increases over 8 percent compared to the previous biennium, due to personal services increases and a contingency appropriation for caseload costs in the Indian Legal Jurisdiction program. Personal services increase 5.5 percent due to vacancy savings in fiscal 1990 and the fiscal 1991 pay plan increase which continues into the 1993 biennium.

Operating expenses increase nearly 32 percent, due primarily to the inclusion of a \$100,000 biennial contingency appropriation in the Indian Legal

Jurisdiction program for legal fees, expert witnesses, and other court costs. This contingency appropriation is shown as \$50,000 in each year of the 1993 biennium. For the past two biennia, a \$100,000 biennial appropriation has been appropriated for this program. In fiscal 1990, only \$11,200 of this appropriation was expended.

Other increases in operating expenses include rent and other fixed costs of nearly \$4,000 and inflationary adjustments. Operating costs are higher in fiscal 1992 due to the biennial printing cost of Attorney General opinions. Equipment includes \$11,950 for computer equipment and software; \$4,629 for shelving, file cabinets, and typewriters; and \$3,500 for replacement carpet.

Elected Official Budget Modifications

In November 1990, the Department of Justice indicated that it planned to present the following additional budget modification requests to the 1991 legislature. They are not included in the Executive Budget.

Appellate Legal Services Bureau Chief

The Attorney General requests \$118,882 general fund in the 1993 biennium to add a 1.0 FTE attorney in the Appellate Legal Services Bureau for the position of Bureau Chief. The eleven attorneys and five clerical personnel in the

LEGAL SERVICES DIVISION

bureau are currently supervised directly by the Deputy Chief Attorney General, who is also division administrator. The Appellate Legal Services Bureau, one of three bureaus in the Legal Services Division, is the only one without a bureau chief.

Indian Legal Jurisdiction Attorney

The Attorney General requests \$94,484 general fund in the 1993 biennium to add

a 1.0 FTE attorney to provide legal support with issues involving Indian legal jurisdiction. The litigation in Indian jurisdiction issues is expected to increase in the upcoming biennium, particularly with regard to water rights adjudication on the reservations. The 1989 legislature authorized one additional attorney for this program to coordinate the negotiation or litigation of federally reserved water rights.

AGENCY LEGAL SERVICES

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	11.50	13.50	13.50	13.50	.00
Personal Services	375,402	476,206	471,510	471,294	10.71%
Operating Expenses	104,622	107,468	109,253	109,422	3.10%
Equipment	31,954	4,725	4,550	4,550	-75.19%
Total Program	\$511,978	\$588,399	\$585,313	\$585,266	6.38%
<u>Fund Sources</u>					
Proprietary Fund	511,978	588,399	585,313	585,266	6.38%
Total Funds	\$511,978	\$588,399	\$585,313	\$585,266	6.38%

Program Description

The Agency Legal Services program provides legal services to state agencies upon request. Agencies are billed for attorney time and case-related costs to support the program.

In fiscal 1990, the program spent over \$30,000 for a major computer system upgrade. Equipment in the 1993 biennium includes funds for replacement of older computer equipment (\$3,500) and for purchase of two new laptop portable computers (\$5,600).

Current Level Budget

The Agency Legal Services current level budget for the 1993 biennium increases 6.4 percent compared to the previous biennium primarily due to personal services costs, which are increased by 2.0 FTE in fiscal 1991 for additional attorney staff and secretarial support as approved by the 1989 legislature, and by the fiscal 1991 pay plan increase which continues in the 1993 biennium. Operating costs increase 3 percent due to increased rent and other fixed costs and the additional operating costs related to the two new staff positions.

Agency Legal Services is a proprietary fund operation. The source of revenue is an hourly fee charged to user agencies for its services. The hourly fee in the 1989 and 1991 biennia has been \$48 per hour for attorney fees. The agency is considering a proposal to increase the services fee to \$53 per hour in the 1993 biennium, primarily to fund personal services increases. The user agencies most affected would be Tort Claims Division, which pays approximately 60 percent of total fees and Workers' Compensation Division, which pays 20 percent.

GAMBLING CONTROL DIVISION

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	31.00	31.00	31.00	31.00	.00
Personal Services	878,579	817,634	963,702	962,301	13.55%
Operating Expenses	281,865	614,396	399,053	399,097	-10.95%
Equipment	<u>225,137</u>	<u>91,022</u>	<u>50,000</u>	<u>50,000</u>	<u>-68.37%</u>
Total Program	\$1,385,581	\$1,523,052	\$1,412,755	\$1,411,398	-2.91%
Fund Sources					
State Revenue Fund	<u>1,385,581</u>	<u>1,523,052</u>	<u>1,412,755</u>	<u>1,411,398</u>	<u>-2.91%</u>
Total Funds	\$1,385,581	\$1,523,052	\$1,412,755	\$1,411,398	-2.91%

Program Description

The Gambling Control program was established by the Fifty-first Legislature to investigate, license, and regulate the gambling industry in Montana. An appointed gaming advisory council of nine members provides advisory services to the Attorney General to ensure uniform statewide regulation of gambling activities. The division has criminal justice authority and conducts field routine inspections and investigations for irregularities in gambling activities. In addition to collecting licensing fees for gambling machines and activities, the division is also responsible for collection and distribution of the gambling tax assessed on the net proceeds of gambling activities.

The division was created by transferring the video gaming control functions from the Department of Commerce and enforcement functions from the Department of Revenue to the Department of Justice, along with new funding and FTE for gambling regulation. The revised gambling laws took effect on October 1, 1989.

Current Level Budget

The Gambling Control Division current level budget for the 1993 biennium decreases nearly 3 percent compared to the 1991 biennium, but this figure is distorted due to an inadvertent double appropriation in the 1991 biennium. When the Gambling Control Division was created by Senate Bill 431 late in the 1989 legislative session, funding was provided from three sources as shown in Table 1 below.

Table 1
Gambling Control Division
1991 Biennium Appropriation

Source of Appropriation	FTE	FY 90	FY 91
Department of Commerce			
- Video Gaming Bureau	13.0	\$ 830,055	\$ 819,688
Department of Revenue			
- Investigation/Enforcement	7.0	246,072	254,823
Senate Bill 431	<u>11.0</u>	<u>527,081</u>	<u>449,081</u>
Total	31.0	\$1,603,208	\$1,523,592

GAMBLING CONTROL DIVISION

The amounts shown in Table 1, transferred from the Department of Revenue, were effectively a double appropriation, since funding for the enforcement function from the Department of Revenue had also been included in the Senate Bill 431 appropriation. This resulted in an overstatement of the appropriations for the 1991 biennium of approximately \$250,000 per year. If adjusted for this inadvertent error, the 1991 biennium appropriation would be \$1,357,136 in fiscal 1990 and \$1,278,769 in fiscal 1991.

In fiscal 1990, the program expended approximately \$28,500 of this "double appropriation" for unanticipated costs, including: 1) the fiscal 1990 pay plan increase, which was not funded for the 11.0 FTE authorized in Senate Bill 431; 2) upgrades for 15.0 FTE as a result of revised responsibilities from the expanded gambling control laws; 3) costs of the Advisory Council, which were not budgeted in the original appropriations; and 4) additional equipment purchases. The department anticipates utilizing a similar portion of the "double appropriation" in fiscal 1991, with the remainder reverting to the gambling state special revenue fund.

The increase in 1993 biennium expenditures over fiscal 1990 actual expenditures is 2 percent. Significant increases in personal services and operating expenses are nearly offset by a reduction in equipment for the 1993 biennium. Personal services increase \$85,000 over fiscal 1990 due to vacancy savings and the fiscal 1991 pay plan increase that continues in the 1993 biennium (increases over the fiscal 1991 appropriation are due to the addition of 2.0 FTE over funded levels and upgrades of several positions, primarily investigators).

Operating expenses increase over \$117,000 (41.5 percent) per year over fiscal 1990 levels since fiscal 1990 does not represent a full year of operations. The division did not begin full operations until the revised gaming laws became effective October 1, 1989. The 1993 biennium operating expense budget is based on a modified fiscal 1991 appropriation, adjusted for

additional increases, such as \$40,000 per year added for the costs of appeals of gaming licensure denied by the division.

While the agency requested \$90,000 per year for equipment, the LFA current level includes \$50,000 per year for the purchase of vehicles, computer system upgrades, and laboratory equipment as prioritized by the agency. The division expended over \$235,000 for equipment in fiscal 1990, including \$62,000 for replacement vehicles, \$97,000 for a computer system upgrade, \$14,500 for radios and other communications devices, \$20,000 for law enforcement equipment, and \$21,500 for office equipment and furniture. The agency is appropriated \$91,000 for equipment in fiscal 1991.

Funding for the Gambling Control Division is from a portion of the revenues generated through licenses and permits for gambling operators, machines, and other gambling activities, as well as license fees for video gambling machine manufacturer/distributors. The revenues are deposited into a state special revenue account to be used for the costs related to operations of the division and other distributions. The division distributes gambling taxes assessed on the net proceeds of gambling activities and a portion of license and permit fees to counties and municipalities in which the gambling activity is located. A portion of the taxes are deposited to the general fund.

Executive Budget Modifications

Gambling Control Expansion

The Executive Budget includes \$1,043,333 of gambling state special revenue funds in the 1993 biennium for a major expansion of the Gambling Control Division. The expansion would include the addition of 10.0 FTE to meet the statutory obligations for gambling enforcement. Investigative caseloads have been significantly higher than anticipated, and the gambling industry has grown in the past two years. The agency reports excessive overtime hours by existing personnel and a backlog in

GAMBLING CONTROL DIVISION

investigative work, audits, and machine inspections. The gambling state special revenue account would not have sufficient revenues to fund this increase without an increase in current fees or license costs allocated for regulation of the industry. The agency had originally requested \$2,091,716 and 23.0 FTE for gambling control expansion.

Gambling "Buy Money"

The Executive Budget includes \$30,000 from the gambling state special revenue account in the 1993 biennium for "buy money" to be used in undercover investigations of gambling law violations.

Elected Official Budget Modification

In November 1990, the Department of Justice indicated that it planned to

present the following additional budget modification request to the 1991 legislature. It is not in the Executive Budget.

Additional Gambling Control Expansion

As discussed above, the Executive Budget includes \$1,043,333 gambling state special revenue funds for 10.0 additional FTE and expansion of gambling control operations. The Attorney General requests an additional \$1,048,383 and 13.0 FTE to handle the unanticipated investigative caseload increases, audit requirements, and licensing volume. This would provide for a total program expansion of 23.0 FTE and \$2.1 million in the 1993 biennium. The agency intends to propose an increase in fees and license proceeds allocated to gambling regulation in order to fund this expansion.

MOTOR VEHICLE DIVISION

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	160.05	159.05	159.05	159.05	.00
Personal Services	3,242,249	3,476,218	3,481,930	3,479,218	3.61%
Operating Expenses	1,447,855	1,389,030	1,470,846	1,472,571	3.76%
Equipment	<u>78,718</u>	<u>124,718</u>	<u>63,670</u>	<u>63,535</u>	<u>-37.47%</u>
Total Program	\$4,768,822	\$4,989,966	\$5,016,446	\$5,015,324	2.80%
<u>Fund Sources</u>					
General Fund	4,571,027	4,726,265	4,838,446	4,877,324	4.50%
State Revenue Fund	73,062	75,267	128,000	88,000	45.62%
Federal Revenue Fund	<u>124,733</u>	<u>188,434</u>	<u>50,000</u>	<u>50,000</u>	<u>-68.07%</u>
Total Funds	\$4,768,822	\$4,989,966	\$5,016,446	\$5,015,324	2.80%

Program Description

The Motor Vehicle Division is responsible for vehicle registration and vehicle operator licensing. The Driver Services Bureau implements and administers the laws relating to the examination, issuance, cancellation, suspension, revocation, and reinstatement of drivers' licenses and driving privileges. The Motor Vehicle Registrar's Bureau provides a system for registration, titling, recordkeeping, and licensing of motor vehicles, vessels, and recreational vehicles. The Motor Vehicle Division consists of the combined Driver Services and Motor Vehicle Registrar programs as presented in the 1991 biennium budget.

Current Level Budget

The Motor Vehicle Division current level budget increases 2.8 percent compared to the previous biennium due to increases in personal services and operating expenses. Personal services increase 3.6 percent due to vacancy savings in fiscal 1990 and the fiscal 1991 pay plan that continues in the 1993 biennium. Operating expenses increase 3.8 percent, primarily due to inflationary adjustments and minor increases in building rent. These increases are partially offset by the elimination of one-time costs in fiscal 1990 of \$24,900 for the Commercial Vehicle Operator's

License (CVOL) implementation and by reductions below fiscal 1990 levels in the Registrar's Bureau in accordance with the agency budget submission.

Equipment includes funds for the replacement of eight vehicles (\$86,080), 20 typewriters (\$12,120), file cabinets (\$4,410), and desks and chairs (\$10,195) in the Driver Services Bureau. An additional \$14,400 is for the replacement of six computer terminals in the Registrar's Bureau.

The division is funded primarily by general fund, including all of the Registrar's Bureau and 94 percent of the Driver Services Bureau. License fees collected by the division are deposited in the general fund. In addition, the Driver Services Bureau is funded by state special revenue funds of \$170,000 from 3.3 percent of drivers' license fee collections, \$40,000 for driver rehabilitation fees collected from individuals attending driver rehabilitation and improvement courses to defray course costs, and \$6,000 for fees charged to recover costs of the Montana Highway Patrol Identification Card issues. State special revenues increase primarily due to increased revenues from the 3.3 percent share of drivers' license fee collections. A \$40,000 fund balance carryover is spent down in fiscal 1992. Federal funds, which were received for implementation of the CVOL system, were higher in the 1991 biennium due to one-time funding

MOTOR VEHICLE DIVISION

for the implementation of the CVOL system. Federal funding for the CVOL system will probably not be available after fiscal 1993.

Executive Budget Modification

Driver's License Express Stations

The executive budget includes \$350,660 of general fund in the 1993 biennium for additional staffing to reduce customer delays at driver licensing stations statewide. Delays in customer service of up to two hours are attributed by the agency to a 22 percent increase in staff workload with no increase in personnel and the addition of the commercial licensing program in 1988. The agency has responded with extended hours, payment of overtime, and the use of part-time help. This modified budget would add 8.0 FTE, primarily to staff new express licensing stations in larger cities for license renewals only.

If this modified request is approved, overtime included in the current level

budget (approximately \$16,000 per year) could be eliminated.

Elected Official Modified Request

In November 1990, the Department of Justice indicated that it planned to present the following additional budget modification request to the 1991 legislature. It is not in the Executive Budget.

Driver's License Express Station Increase

As discussed above, the Executive Budget includes \$350,660 general fund for 8.0 additional FTE to reduce customer delays at driver licensing stations statewide. The agency had originally requested \$930,124 general fund and 20.2 FTE to accomplish this task. This modification request is for the difference between the Executive Budget and the original request--\$579,464 and 12.2 FTE--to expand driver licensing stations. The agency proposes an increase in the driver's license fee to fund this request.

HIGHWAY PATROL DIVISION

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	263.90	261.40	261.40	261.40	.00
Personal Services	8,055,987	8,436,538	8,256,072	8,250,307	.08%
Operating Expenses	2,039,596	1,913,067	2,105,987	2,088,493	6.12%
Equipment	1,012,457	912,600	1,010,635	1,010,271	4.98%
Total Program	\$11,108,040	\$11,262,205	\$11,372,694	\$11,349,071	1.57%
<u>Fund Sources</u>					
State Revenue Fund	10,630,387	10,744,353	10,872,520	10,850,830	1.63%
Federal Revenue Fund	477,653	517,852	500,174	498,241	.29%
Total Funds	\$11,108,040	\$11,262,205	\$11,372,694	\$11,349,071	1.57%

Program Description

The Highway Patrol Division is responsible for patrolling the highways in Montana, enforcing traffic laws, and investigating traffic accidents. The patrol gives assistance and information to motorists, first-aid to those injured in traffic accidents, transports blood and medical supplies in emergency situations, and assists other law enforcement agencies when requested. The patrol's Communications Bureau provides 24-hour, seven-day-a-week communication and radio dispatch for the Highway Patrol and other state agencies. The Motor Carrier Safety Assistance program (MCSAP) attempts to reduce commercial motor vehicle accidents in the state by participating in the Commercial Vehicle Safety Alliance (CVSA) and its North American Driver/Vehicle Inspection program in all levels of inspections as well as safety review audits.

Current Level Budget

The Highway Patrol Division current level budget for the 1993 biennium increases 1.6 percent compared to the previous biennium, due to increases in operating expenses and equipment. Personal services are higher in the 1993 biennium than fiscal 1990 due to vacancy savings and the fiscal 1991 pay plan increase. These increases are offset partially by: 1) a reduction of 2.5 FTE

authorized for fiscal 1990 only for an expanded recruit training class; and 2) an exceptionally high overtime cost (nearly \$200,000) in fiscal 1990 that was \$80,000 above the budgeted amount. The current level contains \$100,000 per year for overtime in the 1993 biennium. The 1993 biennium personal services are lower than the fiscal 1991 appropriation due to a number of downgrades and step changes in patrol officer positions that occurred after the appropriation was made.

Operating expenses increase 6.1 percent due to prisoner per diem (the amount reimbursed to local detention centers for prisoners arrested by the Highway Patrol). In fiscal 1990, expenditures for per diem were \$110,000 more than in previous years. The agency states the increases are caused by: 1) stronger enforcement of DUI laws; 2) more jail time per prisoner due to availability of new jail space; and 3) an increase in the reimbursement rate from a statutory \$20 per day to an average of \$35 per day under a new statute that allows a negotiated rate that more closely approximates full reimbursement.

Because the program is not budgeted for prisoner per diem at this level in the fiscal 1991 appropriation, the agency has submitted a \$280,000 supplemental request for fiscal 1991 for the anticipated increase and to replace the funds transferred to fiscal 1990. The LFA current level includes \$110,000 prisoner per diem per year, as this is

HIGHWAY PATROL DIVISION

expected to be an ongoing cost. The Executive Budget does not include the increase in current level, but includes it in a modified budget request for additional highway patrol FTE.

Operating expenses also include a \$57,000 biennial increase in special away-from-home allowances for patrol officers to reflect union negotiations for the subsistence plan and inflationary adjustments of \$119,500 for gasoline and other items. These increases are partially offset by the removal of operating expenses for an expanded recruit training school from the fiscal 1990 base.

Equipment includes: 1) \$899,405 in fiscal 1992 and \$898,695 in fiscal 1993 for the replacement of up to 65 patrol cars per year; 2) \$100,000 per year for the purchase of other equipment on a priority basis, including hand-held radios, vehicle top lights, computers, and communications equipment; and 3) \$11,230 in fiscal 1990 and \$11,576 in fiscal 1991 for additional cars for the MCSAP inspection program.

The Highway Patrol Division is funded primarily by highways state special revenue funds. Since these funds are also the primary source of state funds for highway construction and maintenance, funds used for highway patrol operations reduce funds available for the State Highway program. The MCSAP program is funded 80 percent by federal funds from the U.S. Department of Transportation. A 20 percent state match is required for the program, but approximately one-third of the match is provided by a soft match utilizing highway patrol officers to conduct truck inspections. The 65 MPH enforcement squad is funded entirely by federal funds from the U.S. Department of Transportation through a grant from the Highway Traffic Safety Division.

Issue

House Bill 100 Language

House Bill 100 states that "...no funds appropriated for personal services...may be expended under any other category."

In fiscal 1990, the program received a supplemental to spend \$130,000 of fiscal 1991 authority for unexpectedly high prisoner per diem costs. However, the division did not use this supplemental appropriation. Instead, it paid for prisoner per diem (a contracted services expenditure) with excess personal services authority. This expenditure of funds appropriated for personal services in the contracted services category appears to violate the language in House Bill 100.

Communications Cost Allocation Plan

The Communications program of the Highway Patrol Division provides around-the-clock communication and radio dispatch from four regional dispatch centers, providing a statewide network. The program also provides communication and radio dispatch services to other state agencies. Funding for the Communications program is from the highways special revenue account.

Prior to the 1991 biennium, the highways special revenue account was not being reimbursed for services provided to agencies and programs that have other fund sources. Agencies and programs served include the Attorney General and Law Enforcement Services Division of the Department of Justice; the Department of Fish, Wildlife, and Parks; Department of Highways; Public Service Commission; Disaster and Emergency Services of the Military Affairs Division; the Lottery Commission; and the Department of Institutions. The system is also used by local law enforcement agencies. According to Department of Justice usage records, in fiscal 1988 approximately 6 percent of the services were utilized by agencies funded by other than the highways special revenue account. Concerned that the use of the service at no charge by programs funded by other sources results in a use of highways special revenue funds for purposes other than that specified by the Montana Constitution, the Fifty-first Legislature included language in the 1991 biennium appropriations bill requiring recovery of the cost of communication and dispatch services provided to other state agencies: "The Department of Justice shall implement a

HIGHWAY PATROL DIVISION

cost allocation plan for the purpose of recovering the operational cost of regional dispatch centers from all user agencies on an equitable basis. It is the intent that after fiscal 1989 the highways special revenue account be reimbursed for services provided to user agencies that are not funded by the highways state special revenue account. Revenues collected as reimbursement from user agencies for operational costs of the regional dispatch centers shall be deposited in the highways state special revenue account, and shall equal at least 5 percent of the total amount of item 6c [Communications Program appropriation for the 1991 biennium]."

The Department of Justice prepared a cost allocation plan for recovering costs and submitted billings to user agencies to recover \$36,000 of costs of the system. All of the agencies billed except one refused to pay the bills on the basis that the cost had not been built into their 1991 biennium budgets. The department has not yet billed the agencies for fiscal 1991 and it did not request that appropriation authority be built into user agency budgets for the 1993 biennium budget so that the agencies would be adequately funded for the charges.

Fiscal 1990 usage data provided by the department indicates that usage by agencies not funded by highways funds has decreased to 2.5 percent of the total communications system. Therefore, maximum cost recovery under the cost allocation plan would be \$37,000 per biennium. In requiring implementation of a cost recovery plan, the legislature anticipated \$70,000 per biennium would be recovered. The department contends that the cost of collecting usage data exceeds the potential reimbursement. Further, it argues there are some users from whom it would not be prudent to collect fees due to reciprocal services agreements. For example, the department receives rent-free space from the Military Affairs Department for its computer operation in exchange for services from the Department of Justice.

It does not appear that a cost allocation plan has been effectively

implemented, nor does it appear that the Department of Justice intends to do so.

Executive Budget Modifications

Added Patrol Officers and Dispatchers

The Executive Budget includes \$748,004 of highways state special revenue fund in the 1993 biennium for increased prisoner per diem costs and for 8.0 additional FTE to increase the number of patrol officers and communications operators on duty and reduce delay in responding to motorists needs. The additional FTE and associated costs would be \$564,004. The department cited several reasons for the additional staff: 1) there are several counties in the state that do not have a highway patrol officer assigned to the area; 2) there are significantly more vehicles on the road with each vehicle logging more miles than ten years ago, with no increase in patrol size; and 3) the statewide communications network does not have sufficient numbers of dispatchers to service the entire state on a 24-hour basis. This modification would provide an additional 4.0 FTE patrol officers and 4.0 FTE communications operators.

The modification includes \$220,000 increased funding for reimbursements to local government detention centers for prisoners arrested by Highway Patrol officers and placed in those facilities. The costs of prisoner per diem have increased significantly in the 1991 biennium due to the elimination of a statutory ceiling of \$20 per day for per diem reimbursement by the 1991 legislature. The increase provided in this modification for prisoner per diem is included in the LFA current level budget as it is an ongoing expense.

Hand-Held Radios

The Executive Budget includes \$51,000 of highways state special revenue funds in the 1993 biennium to purchase 75 hand-held radios for patrol officers. In 1988, the Montana Highway Patrol was accredited by the National Commission on Accreditation with a waiver of understanding specifying that the patrol

HIGHWAY PATROL DIVISION

would purchase and issue hand-held radios to all officers as quickly as possible for officer safety and to maintain accreditation. The agency had originally requested \$108,000 to provide enough hand-held radios for each patrol officer on duty.

Elected Official Budget Modification

In November 1990, the Department of Justice indicated that it planned to present the following additional budget modification request to the 1991 legislature. It is not in the Executive Budget.

Replacement Aircraft

The Attorney General requests \$570,000 during the 1993 biennium to replace an aircraft currently operated by the Highway Patrol Division. The new aircraft would cost approximately \$1.4 million, which the department proposes to finance at \$285,000 per year over a period of five years. (The Governor's Office recently purchased a used twin-engine King-Air for \$661,000, financed over a three-year period.) The department currently owns a small, single-engine, four-passenger aircraft

purchased in 1983 with federal grant funds. It is used for aerial highway patrol, emergency services, drug surveillance, and department transportation. The proposed aircraft, a single-engine transport aircraft, would provide for all current uses and allow expanded use including: 1) a "quick response unit" of forensic scientists, medical examiners, or criminal investigators to respond to emergency cases throughout the state; 2) transportation of prisoners from counties to the state prison; 3) extraditions of prisoners within a 1,500 mile radius; 4) gambling and drug investigations; 5) witness transportation to rural areas; 6) evidence transport; and 7) body transport for autopsy.

The department says the new aircraft would be funded by: 1) savings of up to \$100,000 per year from the Transportation of Prisoners program; 2) a use charge to the Gambling Control Division (\$50,000); 3) current level funding of \$50,000 per year from the Highway Patrol Division program; and 4) \$85,000 from other sources, including drug forfeiture income, coroner charges, and general fund. No additional FTE are requested.

LAW ENFORCEMENT SERVICES DIVISION

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	40.00	40.00	40.00	40.00	.00
Personal Services	1,200,890	1,263,836	1,276,211	1,276,356	3.56%
Operating Expenses	385,127	495,142	412,324	412,681	-6.28%
Equipment	89,696	36,404	82,303	49,180	4.27%
Total Program	\$1,675,713	\$1,795,382	\$1,770,838	\$1,738,217	1.09%
<u>Fund Sources</u>					
General Fund	1,006,635	1,160,100	1,049,652	1,144,563	1.27%
State Revenue Fund	342,855	354,617	357,414	335,969	-.59%
Federal Revenue Fund	326,223	280,665	363,772	257,685	2.40%
Total Funds	\$1,675,713	\$1,795,382	\$1,770,838	\$1,738,217	1.09%

Program Description

The Law Enforcement Services Division includes the administration, management, and coordination of a broad spectrum of criminal investigative services performed by the Criminal Investigation Bureau, Identification Bureau, and Criminal Intelligence Information Bureau. Criminal investigators conduct criminal investigations of homicide, fraud, robbery, assault, corruption, arson, organized crime, dangerous drug activity, and other felony crimes. The program activity includes conducting criminal investigations of state agencies and providing investigative training to law enforcement officers. The division emphasizes providing adequate specialized drug enforcement resources to address drug abuse and drug trafficking in Montana. The division also includes the Fire Marshal Bureau, which is responsible for safeguarding life and property from fire, explosion, and arson through investigative, inspection, and fire code interpretation and enforcement functions. The Law Enforcement Services Division consists of the combined Law Enforcement Services, Fire Marshal, Criminal Investigation, Identification, and Special Investigation programs as presented in the 1991 biennium budget.

Current Level Budget

The Law Enforcement Services Division current level budget for the 1993 biennium increases just over 1 percent compared to the previous biennium. Personal services increase 3.6 percent due to vacancy savings in fiscal 1990 and the fiscal 1991 pay plan increase that continues in the 1993 biennium. Operating expenses decrease over 6 percent primarily due to a reduction in the statewide drug enforcement task force funding. The decrease in the drug program reflects: 1) a decrease in the anticipated federal grant for the western state task force below fiscal 1991 levels; and 2) a budget based on fiscal 1990 actual expenditures, which were significantly lower than appropriated. Although lower than fiscal 1991, the operating expense budget for the 1993 biennium exceeds fiscal 1990 levels due primarily to the federal grant funds for the location and eradication of illicit marijuana fields and prosecution of those cases. The current level budget continues this at 1991 biennium appropriated levels (\$32,000 per year), although only \$740 was expended in fiscal 1990. Other increases in operating expenses over fiscal 1990 are due to fixed cost increases and inflationary adjustments. Offsetting decreases include a \$12,000 per year reduction in vehicle lease costs for criminal investigation units.

LAW ENFORCEMENT SERVICES DIVISION

(replaced by funding for purchase of used cars).

Equipment includes \$70,000 for ten used vehicles to be used for undercover investigations, \$11,600 for a replacement pickup for the Fire Marshal Bureau, \$6,786 for Fire Marshal inspection and storage equipment, \$9,600 for three computers for criminal investigation work, \$26,775 for criminal investigation equipment, \$4,222 for office equipment, and \$2,500 for a paper shredder.

The Fire Marshal and Identification Bureaus are funded entirely by general fund, as are the majority of the general criminal investigation functions of the Criminal Investigation Bureau. In addition, general fund provides a 25 percent match for the federal grant funding of the western drug enforcement task force. The match (\$119,618 in fiscal 1992) is required by current federal law to increase to 50 percent in fiscal 1993 (\$225,685). State special revenue funds include \$38,894 in fiscal 1992 and \$38,865 from the workers' compensation account for a workers' compensation fraud investigator. The balance of the state special revenue anticipates a continuation of Coal Board grant funding for the eastern state drug enforcement task force. Federal funds include \$32,000 per year federal grant funds for the Montana Marijuana Eradication program and \$331,772 in fiscal 1992 and \$225,685 in fiscal 1993 from a Board of Crime Control federal grant for anti-drug enforcement.

Issue

Fire Marshal Statutory Responsibilities

The State Fire Marshal Bureau is responsible for safeguarding life and property from fire, explosion, and arson. Services offered by this program include fire and arson investigation, inspection of buildings for fire safety, fire code interpretation and enforcement, regulation of the fire protection industry, and the collection of fire data through the fire incident reporting system.

The Bureau has been assigned extensive responsibility in statute for fire safety, education, and enforcement issues, including: 1) requirements and time-frames for inspections of all state and public buildings within the state; 2) requiring issuance of permits and licenses to those selling fire equipment in buildings; 3) assigning the Fire Marshal supervisory jurisdiction over local governmental agencies for fire safety and control; 4) the requirement to investigate and determine the cause for all fires within the state; 5) maintaining a fire incident reporting system for statistical information on fires in Montana; and 6) providing specific rules for certification and protection of day-care centers, disabled individuals, foster care homes, and other special need groups.

In performance indicators submitted as part of its budget program narratives, the agency indicated that in the 1991 biennium, it will complete less than 50 percent of the 1,900 required fire inspections it is responsible to complete. Further, it will provide less than 50 percent of the requested and required fire training it is assigned to complete. In its most recent annual report, the bureau indicated that the fire incident reporting system it is required to maintain lacks data from 40 percent of Montana local fire departments, and that 60 percent of the data that is received is incomplete.

The bureau's failure to meet its statutory responsibilities due to staff limitations may raise liability issues for the state. There is currently at least one lawsuit against the state in progress which involves the bureau's failure to inspect a commercial building within the time-frame required by statute. A fire in the building resulted in fatalities.

The Attorney General has submitted a request for an expansion of the Fire Marshal Bureau staff from the current 9.0 FTE to 40.0 FTE and is considering legislation that would revise the statutory requirements for fire regulations.

LAW ENFORCEMENT SERVICES DIVISION

Executive Budget Modifications

Additional General Investigator

The Executive Budget includes \$79,805 general fund in the 1993 biennium for an additional criminal investigator to respond to increased requests by local law enforcement agencies for investigation of felony crimes. The position would be 0.75 FTE in fiscal 1992 and 1.0 FTE in fiscal 1993.

Elected Official Budget Modifications

In November 1990, the Department of Justice indicated that it planned to present the following additional budget modification requests to the 1991 legislature. They are not included in the Executive Budget.

Fire Marshal Bureau Expansion

The Attorney General requests \$1,888,162 general fund in the 1993 biennium for the expansion of the current staff of the Fire Marshal Bureau from 9.0 FTE to 40.0 FTE. The current staff is not meeting the statutory requirements of the State Fire Marshal's Office for the frequency of fire safety inspections and other related responsibilities. The additional 31.0 FTE are what the agency considers necessary to adequately staff the office to meet all statutory requirements. The agency will present a proposal to the legislature to fund the increase, including a possible increase in the 3/4 of 1 percent tax on fire insurance that currently is assessed to fund the program. The current tax, which raises approximately \$1.8 million per biennium, is deposited in the general fund.

Automated Fingerprint Identification System

The Attorney General requests \$1,008,000 general fund in the 1993 biennium to provide 2.0 additional FTE (latent examiners) and funding for the lease of equipment to computerize fingerprint services in the Identification Bureau. The system would provide access to over 16 million criminal records nationwide, compared to 80,000 in the current state database. The system would increase the ability to identify suspects in criminal cases, improve accuracy rates, and reduce the amount of storage space needed for records.

Permanent Funding for Drug Investigation Units

The Law Enforcement Services Division has two drug investigation units that comprise the Statewide Drug Enforcement program. The western states drug task force is currently funded by a federal grant administered by the Board of Crime Control, requiring a 25 percent general fund match (scheduled to go to a 50 percent match in fiscal 1993). The eastern state drug task force is funded with a Coal Board grant. The agency will address the need for a more permanent funding source for the statewide drug enforcement program during the 1991 legislative session. Current funding for the task forces in the 1993 biennium LFA current level budget is \$1.5 million.

COUNTY ATTORNEY PAYROLL

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	19.05	19.05	19.50	19.50	.45
Personal Services	<u>977,141</u>	<u>1,003,551</u>	<u>1,056,404</u>	<u>1,057,745</u>	<u>6.74%</u>
Total Program	\$977,141	\$1,003,551	\$1,056,404	\$1,057,745	6.74%
<u>Fund Sources</u>					
General Fund	<u>977,141</u>	<u>1,003,551</u>	<u>1,056,404</u>	<u>1,057,745</u>	<u>6.74%</u>
Total Funds	<u>\$977,141</u>	<u>\$1,003,551</u>	<u>\$1,056,404</u>	<u>\$1,057,745</u>	<u>6.74%</u>

Program Description

The County Attorney Payroll program pays one-half the salary and benefits of the 56 county attorneys from state general fund, as required by Section 7-4-2502, MCA.

Current Level Budget

The current level budget for the County Attorney Payroll program increases 6.7 percent compared to the 1991 biennium, due primarily to the addition of 0.45 FTE during the 1991 biennium over appropriated levels and pay increases averaging 3.3 percent as authorized by statute. Two counties have increased their county attorney position from part-time to full-time as allowed by statute, resulting in the FTE increase. These increases resulted in the need for a supplemental appropriation in fiscal 1990 of \$35,000 and the agency has submitted a fiscal 1991 supplemental request of \$77,000 to the 1991 legislature.

The current level budget for county attorneys' payroll is based on the fiscal 1991 level as of November 1990. This includes funds for 20 full-time county attorneys, 13 county attorneys at 60 percent time, 22 county attorneys at half-time, and one county attorney at 20 percent time. No funds are included for salary increases, potential changes from part-time to full-time positions, increased health insurance reimbursement claims, or other statutorily allowed increases that counties might exercise.

Issue

Funding Levels for County Attorney Payroll

The County Attorney payroll has exceeded the original legislative appropriation in each of the last four years and a supplemental appropriation or a program transfer has been necessary to pay total program costs. Table 2 compares the initial appropriation to actual or projected expenditures in fiscal 1988 through fiscal 1991.

COUNTY ATTORNEY PAYROLL

Table 2
County Attorney Payroll
Fiscal 1988 through Fiscal 1991

	<u>FY 88</u>	<u>FY 89</u>	<u>FY 90</u>	<u>FY 91</u>
FTE	18.60	19.05	19.30	19.50
Appropriation	\$924,317	\$937,463	\$ 977,179	\$1,003,551
Actual Cost	<u>940,862</u>	<u>960,009</u>	<u>1,012,137</u>	<u>1,050,667*</u>
Additional Cost	\$ 16,545	\$ 22,546	\$ 34,958	\$ 47,116
Percent Increase**	--	2.04%	5.43%	3.81%

* Projected fiscal 1991 cost

**In fiscal 1988 and 1989, at least 17 counties froze pay levels due to fiscal constraints.

The increases in the program result from counties' exercising of options for increased state support provided in statute. Among these options are: 1) county commissioners may authorize salary increases equal to 70 percent of the last previous calendar year's consumer price (CPI) index (3.3 percent in fiscal 1990, as compared to the 2.5 percent budgeted in the state pay plan); 2) counties with part-time county attorneys may elect to increase the authorized time to a higher percent or full time; 3) counties can submit claims for reimbursement of up to 50 percent of the cost of the county attorney's health insurance; and 4) county attorneys can elect to participate in the state re-

tirement program, requiring the state to pay the employer contribution.

The LFA current level does not include a contingency for any of the above increases. The legislature may wish to consider appropriating funds for the maximum potential salary increases and other contingencies. The additional general fund cost for a 3.5 percent pay increase (assuming a 5 percent CPI each year of the biennium) would be \$37,000 in fiscal 1992 and \$75,000 in fiscal 1993. A contingency for other increases (items 2 through 4 above) based on historical costs, would require \$10,000 in fiscal 1992 and \$26,000 in fiscal 1993.

LAW ENFORCEMENT ACADEMY DIVISION

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	10.00	10.00	10.00	10.00	.00
Personal Services	257,067	295,678	306,580	306,033	10.83%
Operating Expenses	212,834	248,676	267,724	267,974	16.08%
Equipment	20,154	8,071	8,000	8,000	-43.31%
Debt Service	4,699	0	0	0	-100.00%
Total Program	\$494,754	\$552,425	\$582,304	\$582,007	11.19%
<u>Fund Sources</u>					
General Fund	494,754	552,425	582,304	582,007	11.19%
Total Funds	\$494,754	\$552,425	\$582,304	\$582,007	11.19%

Program Description

The Law Enforcement Academy program provides a professional education and training program in criminal justice for Montana law enforcement officers and other criminal justice personnel. The academy, at its campus in Bozeman, provides an annual curriculum specifically designed to meet the needs of the criminal and juvenile justice system.

Current Level Budget

The Law Enforcement Academy current level budget for the 1993 biennium increases 11.2 percent compared to the 1991 biennium, due to increased personal services and the addition of a "pre-service" course. Personal services increase over 10 percent due to vacancy savings, the fiscal 1991 pay plan increase that continues into the 1993 biennium, and hiring replacement staff at higher step levels than budgeted.

Operating expenses increase over 16 percent due to the addition of the "pre-service" ten-week basic training course at the Academy for up to 32 students each year, at a cost of \$48,000 per year. As authorized by the 1989 legislature in House Bill 146, the students will pay tuition fees to attend the course in an amount sufficient to fund the increased cost, with all fees deposited in the general fund. The

Executive Budget includes this program in a modified budget request described below.

Additional increases of \$4,500 per year for contract instructors and nearly \$3,000 per year for inflationary adjustments are included in operating expenses. The remainder of the budget is based on fiscal 1990 expenditures, which are \$30,000 below the appropriated levels. The savings are due to the purchase of the academy buildings and campus in July 1988 and the resulting lower costs of operating the facility. While the 1991 biennium budget was based on an anticipated 25 percent decrease in operating costs due to the building purchase, actual expenditures in fiscal 1990 were an additional \$30,000 lower than expected.

Executive Budget Modification

Academy Pre-Service Course

The Executive Budget includes \$96,000 of general fund in the 1993 biennium to provide an additional program of law enforcement basic training for up to 32 "pre-service" students as authorized by House Bill 146 in the 1989 legislature. The funds will allow the academy to add a fourth basic training class each year, in order to provide training for individuals who are not law enforcement officers but qualify for admission to the academy. The pre-service students

LAW ENFORCEMENT ACADEMY DIVISION

would pay their own tuition, which would offset the expansion cost through deposits to the general fund. Currently, students are hired and trained at the expense of the law enforcement community. The department states allowing students to obtain entry level certification at their own expense would reduce government expense.

Funding for this program is included in LFA current level since it is authorized by current law and the training course was started in fiscal 1991, funded by a budget amendment.

CENTRAL SERVICES DIVISION

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	9.00	9.00	9.00	9.00	.00
Personal Services	260,354	286,164	289,230	288,640	5.74%
Operating Expenses	102,366	83,514	104,622	107,841	14.30%
Equipment	5,407	0	5,000	5,000	84.95%
Total Program	\$368,127	\$369,678	\$398,852	\$401,481	8.47%
<u>Fund Sources</u>					
General Fund	165,640	174,319	179,256	181,143	6.01%
State Revenue Fund	194,020	187,196	209,609	210,301	10.15%
Proprietary Fund	8,467	8,163	9,987	10,037	20.41%
Total Funds	\$368,127	\$369,678	\$398,852	\$401,481	8.47%

Program Description

The Central Services Division provides the administrative, personnel, budgetary, accounting, and fiscal support for the Department of Justice. The program also administers the county attorney payroll and transportation of prisoners program expenditures.

Current Level Budget

The Central Services Division current level budget increases nearly 8.5 percent over the previous biennium. Personal services increase 5.7 percent due to vacancy savings and the fiscal 1991 pay plan increase that is continued in the 1993 biennium. Operating expenses increase 14.3 percent over fiscal 1990 levels due primarily to increases of nearly \$7,000 in fiscal 1992 and \$10,000 in fiscal 1993 for fixed costs such as building rent and payroll service fees and over \$500 per year for inflationary adjustments. These increases are partially offset by reduced audit costs. Biennial audit expenditures of \$22,900 were paid in fiscal 1990, while audit costs of \$17,160 per year are budgeted in the 1993 biennium. No audit costs are in-

cluded in the fiscal 1991 appropriation. Equipment includes \$5,000 per year for replacement computers and software for four workstations.

The Central Services Division is supported by a direct allocation from the four major funds that support the Department of Justice in proportion to their total budgeted costs. This represents a change from last biennium, when only three funds supported the division. The gambling license fee state special revenue account, added late in the 1989 session to the Department of Justice to fund the new Gambling Control Division, was not included in the 1991 biennium allocation. The addition of that account reflects the increased support in the 1993 biennium from state special revenue funds. The increase in proprietary fund allocation reflects an expansion of the program in fiscal 1993. Funding for the division in the 1993 biennium includes 45 percent from the general fund, 46.5 percent from the highways state special revenue fund, 6 percent from the gambling license fee account, and 2.5 percent from the agency legal services proprietary account.

DATA PROCESSING DIVISION

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	15.00	15.00	15.00	15.00	.00
Personal Services	426,751	453,479	465,800	465,621	5.82%
Operating Expenses	439,486	477,638	442,505	442,535	-3.50%
Equipment	36,923	33,780	16,000	16,000	-54.74%
Debt Service	29,669	0	34,122	34,122	130.02%
Total Program	\$932,829	\$964,897	\$958,427	\$958,278	1.00%
<u>Fund Sources</u>					
General Fund	666,055	691,983	712,427	706,278	4.47%
State Revenue Fund	266,774	272,914	246,000	252,000	-7.73%
Total Funds	\$932,829	\$964,897	\$958,427	\$958,278	1.00%

Program Description

The Data Processing program provides a full range of automated data processing and telecommunication services for the Department of Justice including: 1) system development and maintenance of the motor vehicle registration system; 2) driver history system; 3) criminal history record information system and the Montana Uniform Crime Reporting System; 4) computer operator support for the Department of Justice computer system (which serves as a back-up system for the state mainframe system and is owned by the Department of Administration); 5) and system development and support for the Criminal Justice Information Network (CJIN). CJIN links law enforcement/criminal justice agencies with information sources at local, state, and national levels by interfacing with the National Law Enforcement Telecommunications System, the National Crime Information Center (NCIC), and numerous State of Montana files.

Current Level Budget

The Data Processing Division current level budget increases 1.0 percent in the 1993 biennium compared to the 1991 biennium due to higher personal services costs. Vacancy savings in fiscal 1990 and the continuation of the fiscal 1991 pay plan increase in the 1993 biennium

account for the personal services increase. Operating costs decrease due to the purchase of new personal computers in fiscal 1990, resulting in a \$30,000 reduction in computer maintenance contracts. Offsetting operating expenses increases include: 1) \$2,100 per year for fixed costs increases in rent and payroll fees; 2) a \$4,000 increase in the annual service fee for the National Law Enforcement Teletype Service; and 3) inflationary adjustments of \$1,900 per year. Debt service payments for the new personal computers increase in the 1993 biennium. Equipment includes \$7,300 per year for priority purchase and replacement of computers and office equipment and \$8,700 per year for three additional computer workstations for anticipated new CJIN network users. The cost of this equipment should be recovered by the fees charged. The 1991 biennium expenditures for equipment were primarily a one-time expenditure for an upgrade of the CJIN network system, funded by a network user fee increase.

Executive Budget Modifications

Data Processing Fee Increase

The Executive Budget includes \$109,830 general fund in the 1993 biennium for a 10 percent increase in the flat fee paid by the department to the Department of Administration for data processing charges. The fee is a negotiated

DATA PROCESSING DIVISION

reduced fee charged in lieu of the standard mainframe processing fee charged other state agencies. The reduced fee is indirect compensation for the back-up status of the Department of Justice computer system for the state mainframe computer. The fee increase will be used to pay for an upgrade to the Department of Justice computer system, which is nearing capacity.

Data Processing Air Conditioner

The Executive Budget includes \$49,400 of general fund in the 1993 biennium for replacement of the air-conditioning system for the Department of Justice computer system at the Helena National Guard Armory. The current air-conditioning system has been failing in recent years and proper temperature and humidity levels are critical to proper functioning of the computer system.

EXTRADITION & TRANSPORTATION OF PRISONERS

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	.00	.00	.00	.00	.00
Operating Expenses	<u>146,868</u>	<u>146,875</u>	<u>193,648</u>	<u>193,640</u>	<u>31.85%</u>
Total Program	\$146,868	\$146,875	\$193,648	\$193,640	31.85%
<u>Fund Sources</u>					
General Fund	<u>146,868</u>	<u>146,875</u>	<u>193,648</u>	<u>193,640</u>	<u>31.85%</u>
Total Funds	\$146,868	\$146,875	\$193,648	\$193,640	31.85%

Program Description

The Extradition and Transportation of Prisoners program reimburses county sheriffs for allowable expenses associated with transporting prisoners to Montana detention centers and for expenses of extraditing prisoners to Montana.

creasing travel costs. Operating costs shown in the table for fiscal 1990 do not include a supplemental appropriation expenditure of \$44,882. Costs of the program jumped dramatically from \$146,855 in fiscal 1988, to \$187,198 in fiscal 1989, and to \$191,751 in fiscal 1990. The 1993 biennium budget is based on actual fiscal 1990 expenditures (including the supplemental) adjusted for inflation (\$1,900 per year), as expenditures are expected to continue at this level. Expenditures during the first five months of fiscal 1991 have been consistent with this level.

Current Level Budget

The Extradition and Transportation of Prisoners program current level budget increases nearly 32 percent compared to the 1991 biennium due to a significant increase in the number of claims and in-

FORENSIC SCIENCE DIVISION

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	17.00	17.00	17.00	17.00	.00
Personal Services	470,076	625,331	685,719	685,964	25.22%
Operating Expenses	324,235	266,976	273,409	274,305	-7.36%
Equipment	63,983	108,000	110,000	25,000	-21.50%
Total Program	\$858,294	\$1,000,307	\$1,069,128	\$985,269	10.53%
<u>Fund Sources</u>					
General Fund	665,599	754,708	847,284	780,826	14.63%
State Revenue Fund	192,695	197,599	221,844	204,443	9.22%
Federal Revenue Fund	0	48,000	0	0	-100.00%
Total Funds	\$858,294	\$1,000,307	\$1,069,128	\$985,269	10.53%

Program Description

The Forensic Science program, which includes the State Crime Lab in Missoula and the State Medical Examiner, provides for a statewide system of death investigation, forensic science training, and scientific criminal investigation and analysis for specimens submitted by law enforcement officials, coroners, and state agencies. The division tests firearms, toolmarks, hair, fiber, drugs, blood, body fluids, and tissues. The laboratory also analyzes blood, breath, and urine samples in connection with Driving Under the Influence of Alcohol or Drugs (DUI) and provides the certification, maintenance, and training of all law enforcement personnel on breath testing instruments.

Current Level Budget

The Forensic Science Division current level budget increases 10.5 percent due to increased personal services costs. Personal service costs in the 1991 biennium are over \$215,000 higher per year than in fiscal 1990 for three reasons: 1) the division increased salaries for nine forensic scientists using a market factor adjustment approved by the Department of Administration; 2) the division experienced significant vacancy savings in fiscal 1990 due to recruitment prob-

lems for forensic scientists and a vacancy in the \$90,000 medical examiner's position for nine months in fiscal 1990; and 3) the fiscal 1991 pay plan increase continues into the 1993 biennium.

For the last two biennia, the division has had significant vacancies and turnovers in the forensic scientist positions. In fiscal 1990, the division upgraded the positions from an average grade 15, step 6 to the equivalent of a grade 16, step 10 in an attempt to resolve recruitment and retention problems. The cost of the increases is approximately \$56,000 per year at fiscal 1991 salary levels.

Operating expenses decrease over 7 percent due to the elimination of \$54,000 in renovation costs from the fiscal 1990 base. These costs were for an expansion into the west wing of the State Crime Lab in Missoula, which was authorized by the 1989 legislature. An additional \$9,000 was removed from the operating expense base for a one-time increase in contract services for a pathologist while the chief examiner's position was vacant nine months in fiscal 1990. These decreases are partially offset by a contractual rent increase for the State Crime Lab of \$9,200 per year and \$2,800 in fiscal 1992 and \$3,700 in fiscal 1993 in inflationary adjustments.

FORENSIC SCIENCE DIVISION

Equipment includes \$110,000 in fiscal 1992 for the replacement of a gas chromatograph that has reached its recommended useful life and is becoming costly to maintain. An additional \$25,000 in fiscal 1993 is included for the replacement of additional laboratory equipment on a priority basis.

The program is funded by alcoholism treatment state special revenue funds of \$221,844 in fiscal 1992 and \$204,443 in fiscal 1993 for the laboratory testing

and intoxilizer equipment maintenance done by the State Crime Lab for the DUI Enforcement program. These funds also support part of the cost of a DUI specialist forensic scientist position at the lab. The balance of the program is funded by general fund. Federal funds in fiscal 1991 are a Highway Traffic Safety grant for the purchase of six additional intoxilizer machines for distribution to local law enforcement agencies for DUI tests.

PROPOSED DEPARTMENT OF TRANSPORTATION

The Executive Budget proposes to transfer the Transportation and Aeronautics programs from the Department of Commerce and the Motor Fuels Tax Division from the Department of Revenue to the Department of Highways, creating a Department of Transportation. The Executive Budget presents the 1993 biennium budgets for these programs and agencies based on the proposed reorganization. The LFA current level budget presents these programs as they are currently organized.

Additional Costs

The Executive Budget includes \$135,189 in personal services of one-time expenditures for moving and renovation costs associated with the proposed reorganization. In addition, the Executive Budget continues rent and indirect costs in the transferred programs' budgets, even

though there would be no expenditure for these items in the proposed new department. These funds were left in the Executive Budget to assist with moving costs. The Executive Budget anticipates that the Transportation program and the Motor Fuel Division will move into the Department of Highways building complex.

Budget Comparison

The Executive Budget has slightly lower personal service costs and higher operating expenses for the three transferred programs than the LFA current level. Grants and transfers are the same in both budgets.

Personal services costs in the Executive Budget are \$17,045 lower for the biennium than the LFA current level because it contains 0.5 FTE less. Table A compares the FTE in the two budgets by program.

Table A
FTE Comparison
Programs Transferred to the Department of Transportation

- - - Current Level - - -			
<u>Program</u>	<u>Executive Budget</u>	<u>LFA</u>	<u>Executive Over/ (Under) LFA</u>
Transportation	13.00	13.50	(0.50)
Aeronautics	10.99	11.99	(1.00)
Motor Fuels	<u>23.00</u>	<u>22.00</u>	<u>1.00</u>
Total	46.99	47.49	(0.50)

In the Transportation program, a vacant planner IV position was eliminated in the Executive Budget when the program was transferred. In the Aeronautics program, the Department of Commerce transferred a safety compliance office position to the Promotions program before the transfer. This position was reclassified as a promotions officer position. In the Motor Fuels program, the LFA current level eliminates 2.0 vacant FTE positions (an administrative clerk and a revenue agent). The Executive Budget deletes 1.0 FTE, which

is included as a budget modification for the proposed Department of Transportation.

Operating expenses in the Executive Budget are \$121,747 higher than in the LFA current level. This difference is entirely due to base differences. The Executive Budget used the fiscal 1991 appropriated level as its base, while the LFA current level was based on fiscal 1990 actual expenditures. Table B compares operating expenses for these transferred programs in the two budgets.

PROPOSED DEPARTMENT OF TRANSPORTATION

Table B
Comparison of Operating Expenses
Programs Transferred to the Department of Transportation

<u>Program</u>	<u>Executive Budget</u>	<u>Current Level</u>	<u>Executive Over/ (Under) LFA</u>
Transportation	\$ 277,198	\$ 291,768	\$(14,570)
Aeronautics	711,755	651,891	59,864
Motor Fuels	<u>595,074</u>	<u>518,621</u>	<u>76,453</u>
Total	\$1,584,027	\$1,462,280	\$121,747

In the Transportation and Aeronautics programs, indirect costs are budgeted in both the LFA current level and the Executive Budget. The LFA current level includes these costs because both programs are budgeted in the Department of Commerce, which charges programs indirect costs for support of the Directors/Management Services program. If these programs are transferred to the Department of Transportation, there will be no indirect costs. The Executive Budget includes these funds in the budget to be used for moving and renovation costs.

In addition, rent is included in the Transportation and Motor Fuels programs. If these programs move to the Department of Highways complex, there will be no rent charged to them. The Executive Budget includes these funds in the budget to be used for moving and renovation costs.

The funding remains the same in both budgets. The only differences relate to the differing personal services and operating expenses.

COMPARISON OF EXECUTIVE AND LFA CURRENT LEVELS

DEPARTMENT OF HIGHWAYS

Budget Item	Executive Current Level		LFA Current Level		Executive Over (Under) LFA
	Fiscal 1992	Fiscal 1993	Fiscal 1992	Fiscal 1993	
FTE	1,980.82	1,980.82	1,955.78	1,958.08	22.74
Personal Services	61,859,419	61,879,333	60,503,146	60,553,880	2,681,726
Operating Expenses	179,126,830	175,719,074	224,132,062	227,684,889	(96,971,047)
Equipment	6,528,558	6,361,230	6,376,795	6,148,445	364,548
Capital Outlay	7,443,500	7,343,500	3,368,400	3,368,400	8,050,200
Grants	2,744,684	944,684	230,000	230,000	3,229,368
Transfers	22,414,124	7,599,282	14,208,404	17,149,771	(1,344,769)
Debt Service	49,269	49,269	14,219	14,219	70,100
Total Agency	\$280,166,384	\$259,896,372	\$308,833,026	\$315,149,604	(\$83,919,874)
<u>Fund Sources</u>					
General Fund	589,706	409,762	0	0	999,468
State Revenue Fund	161,819,740	132,261,430	148,733,968	154,256,370	(8,909,168)
Federal Revenue Fund	103,335,331	112,957,835	145,883,431	146,972,179	(76,562,444)
Proprietary Fund	14,421,607	14,267,345	14,215,627	13,921,055	552,270
Total Funds	\$280,166,384	\$259,896,372	\$308,833,026	\$315,149,604	(\$83,919,874)

Executive Budget Comparison

The LFA current level budget for the Department of Highways is based upon an updated agency budget request reflecting substantial increases in federal aid highways construction funding. The department received confirmation of the increased funding after the Executive Budget was prepared. For that reason, the Executive Budget current level is \$83.9 million lower than the LFA current level budget for the biennium. The LFA current level budget includes \$102.9 million more for construction-related costs. While the Executive Budget includes \$44.3 million for construction costs in modified budget requests, the LFA current level budget is still \$58.6 million higher in the construction-related costs.

The other significant difference in the two budgets is the proposed reorganization. The Executive Budget includes \$7.6 million for three additional programs that would be combined with the Department of Highways to form the proposed new Department of Transportation. The LFA current level budget is based on the Department of Highways as currently organized.

Differences between the two budgets are discussed in the following tables, narrative, and "Issues" section.

Personal Services

Table A shows the differences between the Executive and LFA current level personal services budgets for the 1993 biennium.

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Table A
Personal Services
Executive Budget Over/(Under)
LFA Current Level
1993 Biennium

<u>Expenditure Type</u>	<u>Difference</u>
New Construction (FTE 25.25)	\$(979,111)
Differential Pay	10,028
Overtime	219,197
Benefits	117,230
Blue Collar Pay Plan	176,000
Funding Removed for 8.0 FTE	389,111
1.0 FTE Eliminated (GVW)	<u>60,189</u>
Subtotal	\$ (7,356)
Dept. Transp. Additions	<u>\$2,689,082</u>
Total Differences	<u>\$2,681,726</u>

The LFA current level includes 25.25 additional FTE related to the increased construction plan (discussed below in the "Issues" section). The Executive Budget includes \$229,225 more for differential and overtime pay because it used fiscal 1991 appropriations as its base. The LFA current level budget is based on fiscal 1990 actual expenditures for these costs. Benefits are higher in the Executive Budget because it included benefits paid for the increased overtime. In the Equipment program, the Executive Budget salaries are \$176,000 higher, since all positions are budgeted at full pay plan levels for blue collar workers. According to the current union contract, new hires must work 1,040 hours at 95 percent of the pay plan amount during apprenticeship. LFA current level adjusts salaries in the Equipment Program to reflect apprentice salaries. The LFA current level removes funding (but leaves the positions) for 5.0 FTE in the Construction program and 3.0 FTE in the Maintenance program that remained vacant most of the 1991 biennium. In addition, the LFA current level budget removes a 1.0 FTE vacant position in the GVW program. Remaining differences are due to the Executive Budget's inclusion of the three

additional programs for the proposed Department of Transportation.

Operating Expenses

Table B shows the differences between the Executive and LFA current level operating expense budgets for the 1993 biennium.

Table B
Operating Expenses
Executive Budget Over/(Under)
LFA Current Level
1993 Biennium

<u>Expenditure Type</u>	<u>Difference</u>
Construction Plan	\$(101,932,735)
Sand Purchases	1,602,084
Weed Control	494,188
Data Processing Charges	110,828
Audit Fee	5,522
Printing -- Gen. Ops.	14,650
Base Differences	1,837,816
Inflation	<u>(687,427)</u>
Subtotal	\$ (98,555,074)
Dept. Transp. Additions	<u>\$ 1,584,027</u>
Total Differences	<u>\$ (96,971,047)</u>

The Executive Budget construction plan is \$101.9 million lower than LFA current level as discussed below in the "Issues" section. Also discussed in the "Issues" section is the Executive Budget recommendation for a \$1.6 million increase for sand procurement in the 1993 biennium. The Executive Budget includes county weed control reimbursement at fiscal 1991 appropriated levels plus cost increases, while the LFA current level budget continues the fiscal 1990 expenditure level with the same allowance for cost increases. The Executive Budget includes \$110,828 more for data processing charges, primarily due to the proposed new Department of Administration computer network charges, which are not included in the LFA current level budget. Audit fees are higher in the Executive Budget due to

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the inclusion of a modified budget request in the calculation of the audit fee schedule for the Legislative Auditor's Office. The Executive Budget includes \$14,650 more for printing costs based on the fiscal 1991 appropriation. The LFA current level budget is based on fiscal 1990 expenditures with a \$3,000 increase for the legislative session year. Overall, operating expenses in the Executive Budget are \$1.8 million higher due to use of the fiscal 1991 appropriation as above. Inflationary adjustment (primarily for fuel and utilities) are \$687,427 lower in the Executive Budget. The remaining differences in operating costs are due to the inclusion of three additional programs in the Executive Budget proposed for the Department of Transportation.

Equipment

Table C shows the differences between the Executive and LFA current level equipment budgets for the 1993 biennium.

Table C
Equipment
Executive Budget Over/(Under)
LFA Current Level
1993 Biennium

<u>Program</u>	<u>Difference</u>
General Operations	\$240,000
Construction	<u>87,694</u>
Subtotal	\$327,694
Dept. Transp. Additions	<u>\$ 36,854</u>
Total Differences	<u>\$364,548</u>

The Executive Budget includes \$240,000 in the General Operations Program equipment budget for computer expansion, primarily to add district offices to the agency network. The Executive Budget

includes more equipment in the Construction program, based on the fiscal 1991 appropriation. The LFA current level is based on historical equipment expenditures for the program. The remaining differences in the equipment budget are due to the inclusion of three additional programs in the Executive Budget for the proposed Department of Transportation.

Capital Outlay

Table D shows the differences between the Executive and LFA current level capital outlay budgets for the 1993 biennium.

Table D
Capital Outlay
Executive Budget Over/(Under)
LFA Current Level
1993 Biennium

<u>Expenditure Type</u>	<u>Difference</u>
Land for Right-of-Way	\$7,710,200
Land for Storage Facility	100,000
GVW Station Retrofit	<u>240,000</u>
Total Differences	\$8,050,200

The Executive Budget includes \$7.7 million more for land purchases for right-of way, as discussed in the "Issues" section. The Executive Budget also includes \$100,000 more for the purchase of land for a storage facility in Great Falls. Finally, the Executive Budget includes \$240,000 for retrofit of GVW weigh stations. The 1989 legislature appropriated these funds as a one-time expense in the 1991 biennium, with the retrofit work scheduled to be completed in fiscal 1991.

Grants

The difference in grants (\$3.2 million) is entirely due to the inclusion of three additional programs in the proposed Department of Transportation.

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Transfers

The Executive Budget includes \$1.4 million less for transfers. This difference stems from the different construction plan used in preparing the budgets. Since the higher level of federal funding was not known at the time the Executive Budget was prepared, it does not reflect the necessary transfers for the new federal aid funding.

Debt Service

The Executive Budget is \$70,100 higher in debt service than the LFA current level budget due to budgeting the cost of debt service administrative costs for the highways revenue and building bond issues at the fiscal 1991 appropriation level. The LFA current level budget is based on actual fiscal 1990 expenditures. The fiscal 1991 appropriation reflected the administrative costs of issuing a \$150 million bond issue. Since no bond issue is proposed for the 1993 biennium, administrative costs will be lower.

Funding

The Executive Budget includes general fund due to the inclusion of the Transportation Division (Department of Commerce) in the budget for the proposed Department of Transportation. The Transportation Division is not included in the LFA current level budget for the Department of Highways.

State revenue and federal revenue funds are lower in the Executive Budget primarily due to the difference in the level of the construction plan for the 1993 biennium.

The difference in proprietary funds results from the difference in base for the two budgets in the Equipment and Motor Pool programs.

Issues

Construction Plan

In early November, the federal Highway Administration notified the Montana

Department of Highways that it would receive \$20 million additional federal funding per year in the 1993 biennium. The department revised its construction plan in mid-December to reflect the higher federal funding level. Since the updated construction plan was not available when the Executive Budget was prepared, it contains \$58.6 million less for construction related costs. The revised construction plan reflected in the LFA current level budget adds 22.95 FTE in fiscal 1992 and 25.25 FTE in fiscal 1990 for the increased contract administration workload, at a biennial cost of nearly \$1 million. Additional contractor payments and other construction-related operating expenses due to the increased federal aid are also included.

Sand Procurement

The Executive Budget is \$1.6 million higher than the LFA current level budget for the purchase of sand in the Stores Program for the 1993 biennium. The Executive Budget includes \$1.2 million per year in the 1993 biennium for the purchase of sand, compared to actual costs of \$217,000 in fiscal 1990 and five-year historical average costs of \$275,000. As of April 1990, the agency calculated it had a three-year supply of sand, which is the department's stated inventory objective. The five-fold budget increase is requested because the agency intends to begin purchasing sand, as opposed to the current practice of making its own sand.

Land Purchases for Right-of-Way

The Executive Budget is \$7.7 million higher than the LFA current level budget for the purchase of land for right-of-way in the 1993 biennium. However, the Executive Budget includes an \$8.5 million reduction in right-of-way purchases in its modified budget request for "Road Construction." (The LFA current level is budgeted at fiscal 1990 actual expenditures.) The Executive Budget current budget is based on the fiscal 1991 appropriation, which included one-time costs to eliminate a backlog in right-of-way purchases. The 1989 legislature stated in House Bill 100 the appropriation for right-of-way

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purchases was to be used for that purpose, with no transfers allowed for other expenditures.

House Bill 100 Fund Transfer Language

House Bill 100 included language authorizing the department to adjust appropriations between fund sources to reflect actual expenditures related to the construction program. The Executive Budget recommends that similar language be included in the 1993 biennium appropriations bill, with a limitation that fund source adjustments cannot exceed 10 percent of the total appropriation for the Construction program. The LFA current level budget for the Construction program for the 1993 biennium is \$417 million. If the 1991 legislature adopted this budget level, the proposed 10 percent limit on fund transfers would equal \$41.7 million. This would allow the department to transfer up to \$41.7 million of spending authority from federal revenue to state special revenue, increasing its total state special revenue expenditure by a significant amount over the legislative appropriation.

The House Bill 100 language authorizing the fund transfers was designed to enable the department to adjust to varying federal funding ratios, depending on actual projects. Since the federal fund matching ratios vary from 75 to 90 percent, the department's expenditure of state and federal funds depends on the type of project completed during the biennium.

However, the department has principally used this transfer authority to expand the 100 percent state-funded Reconstruction Trust Fund (RTF) program. The 1989 legislature approved a 1991 biennium construction plan that included \$66.3 million for RTF construction projects. As shown in Table E, the total expenditures during the biennium for RTF projects will be \$90.7 million, exceeding the original appropriation and construction plan by \$24.4 million (a 37 percent increase).

Table E
Contractor Payments
Comparison, Construction Plan to Actual
1991 Biennium

	----Construction----		
	RTF	Fed. Aid	Total
Legislative Appropriation	\$66.3	\$196.0	\$262.3
Actual (Proj)	<u>90.7</u>	<u>171.6</u>	<u>262.3</u>
Difference	<u>\$24.4</u>	<u>\$ (24.4)</u>	<u>\$ 0.0</u>
Added Authority:			
Budg. Amend.	--	\$15.5	\$15.5
FY 91 Suppl	--	<u>18.0</u>	<u>18.0</u>
Total Added	--	\$33.5	\$33.5
Total Actual (Projected)	\$90.7	\$205.1	\$295.8
Difference from Legis. Approp.	\$24.4	\$9.1	\$33.5

The department has been able to exceed the appropriation for RTF construction by a projected \$24.4 million without legislative review by using the House Bill 100 language authorizing the shift between fund sources. Without the House Bill 100 language, the action would have required budget amendment or supplemental authority (both for additional spending authority and for appropriation transfer authority from one fund to another). The department exceeded the fiscal 1990 RTF appropriation by over \$6.6 million by a transfer of \$8 million from federal spending authority to the state-funded reconstruction trust account. In the 1991 biennium to date, the department has transferred \$38.1 million from federal spending authority to state spending authority. The department states that \$19.7 million of the transfers will be "reversed," as discussed further below, leaving a net transfer of \$18.4 million.

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As Table E shows, the department received \$15.5 million in additional federal spending authority by budget amendments in October and November 1990, on the basis that it had received additional federal funds which required additional federal authority. However, even with the additional federal authority provided by the budget amendment, total federal spending authority was less than the original legislative appropriation. The department is requesting an additional \$18.0 million fiscal 1991 supplemental spending for federal aid construction spending authority. If this supplemental is approved, the department will have increased its federal spending authority by \$33.5 million in the 1991 biennium. Yet federal expenditures are projected to exceed the original 1989 legislature's appropriation by only \$9.1 million. While the additional authority was requested for federal aid construction, in fact it was needed to replace federal fund authority that had been transferred to fund the \$24.4 million of RTF projects in excess of the level approved by the 1989 legislature.

Spending an additional \$24.4 million of state funds for RTF projects has accelerated the "spend-down" of the state highway account. The account's cash fund balance has declined from \$145.9 million at the beginning of the 1991 biennium to a projected \$88.5 million at the end of fiscal 1991.

In addition to transferring federal authority to fund RTF projects, the department has transferred nearly \$20 million of spending authority from federal revenue to state revenue to resolve a cash flow problem resulting from the lag in federal reimbursement to

the state. The agency used the House Bill 100 transfer authority instead of using the interentity loan procedure authorized in statute. The department plans to "reverse" this transfer later in fiscal 1991, transferring authority from the state funds to federal funds.

Clearly, the transfer authority granted in House Bill 100 gives the department broad flexibility to vary the scope and size of its construction plan, allowing significant deviation from the construction plan approved by the legislature. The legislature may want to review whether the House Bill 100 language is accomplishing its objectives. Even with the 10 percent limit recommended in the Executive Budget, the department would have the authority to transfer over \$40 million between federal and state funds.

Language - Budget Amendment Authority

The Executive Budget recommends language be included in the appropriation bill stating that receipt of unanticipated federal funds during the 1993 biennium shall constitute an emergency, allowing approval of a budget amendment for the required state match. The definition of an "emergency" is defined in Section 17-7-401, MCA. Language in the appropriations bill cannot supersede or amend existing statutes.

Executive Budget Modifications

In addition to the \$540.0 million current level budget for the 1993 biennium, the Executive Budget contains \$47.4 million in modified budget requests for the Department of Highways. These budget modifications are listed in the following agency narrative and discussed in more detail in the program narratives.

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Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	1,933.83	1,933.83	1,955.78	1,958.08	24.25
Personal Services	54,745,130	58,953,679	60,503,146	60,553,880	6.47%
Operating Expenses	186,459,548	170,010,807	224,132,062	227,684,889	26.75%
Equipment	6,500,550	6,296,507	6,376,795	6,148,445	-2.13%
Capital Outlay	3,450,074	7,296,590	3,368,400	3,368,400	-37.31%
Grants	204,753	230,000	230,000	230,000	5.81%
Transfers	32,884,364	25,655,637	14,208,404	17,149,771	-46.43%
Debt Service	13,963	49,269	14,219	14,219	-55.03%
Total Agency	\$284,258,382	\$268,492,489	\$308,833,026	\$315,149,604	12.89%
Fund Sources					
State Revenue Fund	173,260,902	157,352,912	148,733,968	154,256,370	-8.36%
Federal Revenue Fund	97,097,931	96,995,848	145,883,431	146,972,179	50.88%
Proprietary Fund	13,899,549	14,143,729	14,215,627	13,921,055	.33%
Total Funds	\$284,258,382	\$268,492,489	\$308,833,026	\$315,149,604	12.89%

Agency Description

The Department of Highways is primarily responsible for the planning, design, construction, maintenance, and protection of Montana's highway and road system to provide safe, efficient, and cost effective services to the traveling public. To accomplish this task, the agency is organized into a number of programs. These programs are: **Construction**, which is responsible for planning, design, preparation for projects to be let, and monitoring construction contract compliance; **Maintenance**, which is responsible for highway system maintenance; **Equipment**, which is responsible for supplying major equipment needs of the department; **Stores**, which provides central purchasing and supply distribution for the department; **General Operations**, which is responsible for administration and support services; **Motor Pool**, which is responsible for maintaining a fleet of vehicles for rental to state agencies; **Interfund Transfers**, which is a vehicle for transfer of funds for debt retirement and between accounting entities; and **Gross Vehicle Weight**, which is responsible for vehicle weight statutes and regulations to protect the physical condition of the highway system.

Current Level Budget

The Department of Highways current level budget increases 12.9 percent (\$71.2 million) compared to the 1991 biennium. Table 1 shows a comparison of changes by program between the two bienniums.

Table 1
Comparison of Changes by Program
1991 to 1993 Biennium

Program	1993 Biennium Increase/(Decrease)	
	Millions	Percent
General Operations	\$ 0.4	2.3
Maintenance	4.3	4.8
State Motor Pool	(0.7)	(34.0)
Equipment	0.8	3.0
Stores	3.5	13.4
GVW	0.0	0.7
Subtotal	\$ 8.3	1.5
Construction	90.1	27.6
Subtotal	\$98.4	17.8
Interfund Transfers	(27.2)	(46.4)
Total Agency	\$71.2	12.9

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The \$27.2 million decrease in the Interfund Transfers program is appropriation authority for a fund transfer between accounts. When this non-operational accounting adjustment is removed, the actual agency increase is 17.8 percent (\$98.4 million), as shown in table 1. Most of the increase is in the Construction program, which increases 27.6 percent (\$90.1 million) due to an increase in the highways construction plan. The remaining programs account for a net increase of 1.5 percent (\$8.3 million) due to inflationary adjustments and increases in personal services.

The increase in the Construction program reflects a significant increase in the level of planned highway construction projects, resulting from an anticipated increase in federal aid funding of over 20 percent. Montana will receive a base level of federal aid of \$120 million per year during the 1993 biennium, in contrast to the \$100 million funding level that has occurred for the past several years. Additional federal aid funds of \$15 million are also anticipated each year for special projects. The 1993 biennium construction plan is discussed in more detail in the narrative for the Construction program.

Personal services increase 6.5 percent due to: 1) significant vacancy savings in fiscal 1990; 2) the fiscal 1991 pay plan increase that continues in the 1993 biennium; 3) the addition of 25.25 FTE in the Construction program for the increased construction workload; and 4) an increase in workers' compensation rates.

Operating expenses increase 26.8 percent (\$95.3 million). Costs associated with the increased highways construction work plan account for 94 percent of the increase (\$89.3 million). These costs include contractor payments and payments to engineering consultants for project design. The remaining 6 percent of the increase (\$6.0 million) is due to inflationary adjustments (\$5.6 million) and an increase in the interdepartmental allocation for equipment rental by the Equipment Bureau (\$0.8 million), with minor offsetting decreases.

Over 84 percent of the equipment budget is for replacement of construction equipment and vehicles in the Equipment and State Motor Pool programs.

Capital outlay is for right-of-way land purchases and for purchase of land for maintenance storage and sand lots. The current level budget continues expenditures during the 1993 biennium at fiscal 1990 expenditure levels. The fiscal 1991 appropriation includes significant one-time expenditures to eliminate a backlog in right-of way purchases.

Grant funds are for grants to counties for urban transportation planning. They are continued at the fiscal 1991 appropriated level.

Transfers shown in the main table are appropriation authority for fund transfers from the highways special revenue account to the reconstruction trust fund account, as explained in the narrative for the Interfund Transfers program.

Debt service funds are for the lease of a telephone system in the Construction program and for the administrative expenses of the debt service on building and revenue bond issues. The 1993 biennium budget is based on fiscal 1990 actual expenditures.

State special revenue funds decrease 8.4 percent in the 1993 biennium, reflecting a significant decrease in the level of 100 percent state funded Reconstruction Trust Fund (RTF) construction projects compared to the 1991 biennium and an increase of 20 percent state-match federal aid construction. In addition to providing funding for RTF construction and the state match for federal aid construction, state special revenue accounts provide funding for the Maintenance program, the GVW program, Stores program, and administrative costs of the department.

The more than 50 percent increase in federal funding reflects the anticipated \$20 million per year increase in obligation authority for federal aid construction, as well as the inclusion of over \$15 million per year for

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contingency federal fund availability and the carryover of approximately \$10 in federal obligation authority from prior years. The federal revenues are primarily from Federal Highway Surface Transportation Act funds, which require an average 80/20 percent federal/state match for federal aid highway construction projects. Up to 1.5 percent of federal highway funds can be used for highway planning and research.

Proprietary funds are for the Equipment and State Motor Pool programs.

State special revenue funds include the highways special revenue account, the RTF account, and the bond proceeds account. The primary account is the highways special revenue account, which receives most of its revenues from user

fees, including gas and diesel fuel taxes, and gross vehicle weight fees, licenses, and permits. The RTF account receives revenues from coal severance tax collections, as well as transfers from the bond proceeds and highways special revenue accounts. The bond proceeds account received revenues from a \$150 million revenue bond issue in the 1980's. This was the primary source of RTF project funding until fiscal 1991, when the funds were depleted.

Table 2 is a cash flow analysis of the combined highways special revenue, RTF, and bond proceeds accounts for the 1991 and 1993 bienniums. Expenditures in the 1993 biennium reflect the LFA current level budget, Executive Budget modifications that are not included in LFA current level, and the Long-Range Building program request.

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Table 2
Combined Highways State Special Revenue Accounts
Fiscal years 1990 through 1993

	<u>FY 90*</u>	<u>FY 91*</u>	<u>FY 92</u>	<u>FY 93</u>
Beginning Cash Balance	<u>\$145,903,788</u>	<u>\$129,525,790</u>	<u>\$88,455,786</u>	<u>\$64,397,069</u>
<u>Revenues</u>				
Gasoline Tax	\$ 82,282,766	\$ 80,919,000	\$ 80,432,000	\$ 79,447,000
Diesel Tax	23,821,548	23,984,000	24,637,000	25,567,000
GVW tax	26,426,906	24,042,000	25,530,575	25,530,575
Coal Tax	8,144,464	5,813,943	4,630,420	4,610,289
Bond Interest Earnings	3,925,575	710,000	0	0
Stores	13,605,350	14,873,441	14,659,684	14,100,844
Other	<u>\$4,998,444</u>	<u>\$1,250,000</u>	<u>\$1,250,000</u>	<u>\$1,250,000</u>
Total Revenues	<u>\$163,205,053</u>	<u>\$151,592,384</u>	<u>\$151,139,679</u>	<u>\$150,505,708</u>
<u>Expenditures</u>				
Highways Budget				
General Operations	\$ 6,075,639	\$ 6,454,385	\$ 6,239,801	\$ 6,160,935
Construction				
Federal Aid Construction	29,744,625	29,890,450	43,804,688	44,217,566
FY 91 Supplemental	0	3,960,000	0	0
RTF Construction	41,025,782	42,003,058	18,838,824	21,760,060
Preconstruction	5,028,133	6,260,433	0	0
Maintenance	44,480,936	46,669,303	47,371,048	47,256,988
FY 91 Supplemental	0	234,716	0	0
Stores	13,209,039	13,559,768	14,659,684	14,100,844
FY 91 Supplemental	0	1,313,673	0	0
GVW	3,370,452	3,802,633	3,611,519	3,610,206
Exec. Budget Modifications	0	0	1,719,527	1,465,220
Bond Princ & Interest	10,566,903	10,647,833	10,655,333	18,476,333
Local Governments	14,075,000	14,075,000	14,075,000	14,075,000
Dept of Justice	10,824,398	10,994,504	11,058,025	11,036,925
FY 91 Supplemental	0	497,100	0	0
Exec. Budget Modifications	0	0	470,600	328,404
Dept Of Revenue	696,250	776,974	741,062	740,134
Dept of Commerce	71,250	71,250	71,250	71,250
Highway Traffic Safety	60,950	76,030	71,010	70,931
Dept Fish, Wildlife, & Parks	0	168,000	84,000	84,000
Long-Range Bldg	457,942	1,207,278	1,727,025	0
Adjustment	<u>(104,248)</u>			
Total Disbursements	<u>\$179,583,051</u>	<u>\$192,662,388</u>	<u>\$175,198,396</u>	<u>\$183,454,796</u>
Expenses in Excess of Rev.	<u>(16,377,998)</u>	<u>(41,070,004)</u>	<u>(24,058,717)</u>	<u>(32,949,088)</u>
Ending Cash Balance	<u>\$129,525,790</u>	<u>\$88,455,786</u>	<u>\$64,397,069</u>	<u>\$31,447,981</u>

*Agency SBAS records -- FY 90 actual, FY 91 Appropriations, & FY 91 Supplementals

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The RTF program was enacted in 1983, enabling the department to undertake 100 percent state funded primary system improvement projects. Funding for the RTF comes from 12 percent of total coal severance tax collections, bond proceeds, and the highways special revenue account. A \$150 million bond issue in the 1980's provided the primary source of RTF funding until fiscal 1991, when the bond proceeds were fully expended. Until fiscal 1991, the fund balance in the highways special revenue account continued to grow. Beginning in fiscal 1991, the highways special revenue account became the primary source for RTF projects, and the fund balance began to fall. The combined accounts balance is projected to be reduced from \$145.9 million to \$88.5 million during the 1991 biennium and fall an additional \$57 million in the 1993 biennium, leaving a fund balance of only \$31.4 million on July 1, 1993.

Issues

Highways Funding Shortfalls

As the cash flow for the highways state special revenue cash shows, current policies for funding Montana's highway system are at a crossroads. The future of the federal transportation program is uncertain. The ten year state RTF program is scheduled to end at the end of the 1993 biennium, when the allocation of coal severance tax revenue to the highways program sunsets. Proceeds from the \$150 million bond issues have been spent, and an increasing share of state highways funds must be used beginning in fiscal 1993 to meet debt service payments during the next 15 years.

The cash balance in the combined highways special revenue accounts will drop from \$145.9 million at the beginning of the 1991 biennium to \$31.4 million at the end of the 1993 biennium, assuming enactment of Executive Budget supplemental requests for the department for fiscal 1991, the LFA current level budget in the 1993 biennium, and relevant Executive Budget modifications and the long-range building requests. Expenditures from the account will

exceed revenues by over \$50 million in both the 1991 and 1993 biennia. If current spending levels continue through the 1995 biennium (with a 2 percent inflationary adjustment), the account will have a negative cash balance in fiscal 1994.

Table 3
Highways State Funds
Cash Flow Projection
1993 and 1995 Bienniums
(In Millions)

	1993 <u>Bien.</u>	1995 <u>Bien.</u>
Beginning Cash Balance	\$ 88.5	\$ 31.4
Biennium Revenues	<u>301.6</u>	<u>291.4</u>
Total Available	<u>\$390.1</u>	<u>\$322.8</u>
Biennium Expenditures		
Constr. - Fed. Aid Match	\$ 88.0	\$ 91.6
Construction - RTF	40.6	42.2
Maintenance	94.6	97.4
Administration/GVW	19.6	20.1
Stores	28.8	29.0
Debt Service - Highways	29.1	36.5
Local Govt. Distribution	28.1	28.1
Budget Modifications	3.2	--
Other Agencies	<u>26.7</u>	<u>26.5</u>
Total Expenditures	<u>\$358.7</u>	<u>\$371.4</u>
Biennium Ending Balance	<u>\$ 31.4</u>	<u>\$(48.6)</u>

Three factors add to the already existing fiscal imbalance during the 1995 biennium: 1) coal tax revenues end in fiscal 1993, reducing revenue by \$9 million in the 1995 biennium; 2) bond debt service costs increase by nearly \$8 million per year beginning in fiscal 1993; and 3) inflationary increases. To maintain current level expenditures (including the RTF program) in the 1995 biennium would require the equivalent of an 8 cent fuel tax increase, assuming that revenues would keep pace with inflation. Without a continued RTF program, at least a 4 cent per year fuel tax increase would be necessary to keep

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the fund solvent. Additional funding will be required to maintain current level services beyond the 1993 biennium or significant program reductions will be required. (See the 1990 LFA report, State Highway Funds: Budget Projections, for further background on this issue and possible alternatives for addressing the projected highways fund imbalance.)

Cost Responsibility Study

The primary source of state highway funds is user fees. The three main types of user fees currently collected are gasoline taxes, diesel taxes, and gross vehicle weight (GVW) fees. Table 4 shows the relative percentage of total revenues that each fee contributed from 1979 through 1989. Tax increases are footnoted.

Table 4
Percent User Fee Revenues
Highways State Fund
Fiscal 1979 through 1989

Fiscal Year	--Percent of Total--		GVW Fees
	Gas Tax	Diesel Tax	
1979*	58.8	15.4	25.8
1980	57.2	15.7	27.1
1981	53.8	17.4	28.8
1982	53.3	16.9	29.8
1983	52.2	17.2	30.6
1984*	59.8	17.7	22.5
1985	58.5	18.5	23.0
1986*	59.1	18.5	22.4
1987*	62.6	16.4	21.0
1988	64.1	17.0	18.9
1989	63.4	17.4	19.2

*1979-Gas tax 9 cnts/Diesel tax 11 cnts
1984-Gas tax 15cnts/Diesel tax 17 cnts
1986-Gas tax 17 cnts
1987 Gas tax 20 cnts

The gas tax rate has increased over 120 percent in ten years (from 9 cents per gallon in 1979 to 20 cents in 1987). Diesel tax rates have increased over 80 percent (from 11 cents to 20 cents).

These increases have made Montana's fuel taxes among the highest in the nation.

While GVW fees have increased 52 percent during the past 10 years, they have not kept pace with inflation or with the increases in other user fees. There has not been a general increase in GVW fees since 1968. As Table 4 shows, the percent of user fees derived from GVW fees declined from 25.8 percent to 19.2 percent of total revenues during the last ten years. During the same period, the share provided by gas taxes grew from 58.8 percent to 63.4 percent.

Since GVW fees have not been raised in over two decades, they may not adequately reflect use and benefit for vehicles subject to the fees. Both the LFA State Highways Funds report and the June 1990 Legislative Auditor's Performance Audit Report on the GVW Division pointed out that the department does not know if current fee levels for each class of highway vehicle are appropriate. Other states have conducted cost responsibility studies to determine if user fee levels are appropriate for the road wear caused by each class of user. Montana has never conducted such a study. The Legislative Audit report recommended the department undertake such a study.

In evaluating potential revenue options in past years, the department has not considered GVW increases a viable means to raise significant amounts of revenue. However, with the cash shortfalls currently facing the state highway funds, it may be worthwhile to examine all options to resolve funding problems. The state of California recently increased GVW fees by 40 percent following a cost responsibility study.

On June 1990, the department agreed in response to the audit recommendation to consider conducting a cost responsibility study. The department has included \$25,000 in its 1993 biennium budget for this purpose. In other states, the cost of a comprehensive cost responsibility study usually exceeds \$150,000.

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Executive Budget Modifications 1993 Biennium

<u>Budget Modification</u>	<u>FTE FY92</u>	<u>FTE FY93</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
1) Dept. of Transportation	1.0	1.0		\$ 135,189	\$ 135,189
2) Road Reporting System				62,108	62,108
3) City Parks Rest Areas				400,000	400,000
4) Road Construction				30,385,368	30,385,368
5) Engineering Consultants				13,879,296	13,879,296
6) Monitoring Fuel Tanks				2,219,600	2,219,600
7) Automated Weigh Stations				312,520	312,520
8) G.V.W. Officer Training	—	—	—	55,330	55,330
Total	1.0	1.0	\$0	\$47,449,411	\$47,449,411

The Executive Budget includes the budget modifications listed above. These

modifications are discussed in more detail in the program narratives.

GENERAL OPERATIONS PROGRAM

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	168.93	168.93	168.93	168.93	.00
Personal Services	4,421,226	4,952,526	4,988,632	4,985,340	6.40%
Operating Expenses	2,800,145	3,013,332	2,870,627	2,816,110	-2.18%
Equipment	264,208	139,500	186,672	114,572	-25.38%
Grants	204,753	230,000	230,000	230,000	5.81%
Debt Service	<u>11,149</u>	<u>46,200</u>	<u>11,150</u>	<u>11,150</u>	<u>-61.12%</u>
Total Program	\$7,701,481	\$8,381,558	\$8,287,081	\$8,157,172	2.25%
<u>Fund Sources</u>					
State Revenue Fund	6,129,639	6,482,934	6,239,801	6,160,935	-1.68%
Federal Revenue Fund	<u>1,571,842</u>	<u>1,898,624</u>	<u>2,047,280</u>	<u>1,996,237</u>	<u>16.51%</u>
Total Funds	\$7,701,481	\$8,381,558	\$8,287,081	\$8,157,172	2.25%

Program Description

The General Operations program provides the administrative support services for the department, including general administration and management, accounting and budgeting, planning and program development, research, legal services, computer systems support, and personnel.

a reduction of \$10,000 in fiscal 1992 and an increase of \$35,500 in fiscal 1993 for insurance costs; 5) a decrease of \$12,600 in fiscal 1992 and \$9,500 in fiscal 1993 of the allocation by the Equipment Bureau (proprietary fund) for equipment rental; and 6) deflationary adjustments of \$12,000 in fiscal 1992 and \$53,000 in fiscal 1993 for computer processing costs.

Current Level Budget

The General Operations current level budget increases 2.3 percent due to increased personal services costs. The increases result from: 1) vacancy savings in fiscal 1990; 2) the fiscal 1991 pay plan increase that continues into the 1993 biennium; and 3) an increase in workers' compensation rates.

Annual operating expenses for the 1993 biennium budget are higher than fiscal 1990 expenditures but lower than the fiscal 1991 appropriated level. Adjustments to the fiscal 1990 base include: 1) an increase of \$82,000 in fiscal 1992 and \$17,000 in fiscal 1993 for software licensing and development for the department's Management and Budget System improvements; 2) an increase of \$11,000 per year to lease copy machines that were previously purchased as equipment; 3) an increase of \$10,000 per year for audit fees; 4)

Equipment includes: 1) \$3,144 for personal computers; 2) \$15,800 for safety and educational equipment, including training videos, books, and projection equipment; 3) \$58,400 for replacement office equipment; 4) \$27,000 for photographic equipment, which includes \$25,000 for a replacement Log Etronic Printer; 5) \$60,000 for a new pavement deflection measuring device; and 6) \$136,900 for traffic recording equipment, including the installation of 24 telemetry sites. The increased communications costs associated with installation of the new traffic recording equipment are being requested in a budget modification, discussed below.

Grant funds are for grants to County Planning Boards for urban transportation planning, which are continued at the fiscal 1991 appropriated level.

Debt service funds are for the administrative expenses of the debt

GENERAL OPERATIONS PROGRAM

service on building and revenue bond issues. A decrease occurs due to basing the 1993 biennium budget on fiscal 1990 expenditure levels, which are \$35,000 lower than the fiscal 1991 appropriation.

Section 15-70-101, MCA, appropriates \$14 million highways special revenue for distribution to cities and counties annually. These funds, which are distributed by the General Operations program, are not shown in the main table because they are statutory appropriations.

State special revenue funds are from the highways special revenue account. In addition, the program receives 1.5 percent of the total federal aid funds from the Federal Highway Surface Transportation Act for highways planning and research activities. Other federal funds are provided by the Federal Minority and Disadvantaged Business Enterprise program.

Executive Budget Modifications

Department of Transportation Organizational Cost

The Executive Budget includes \$135,189 highways state special revenue fund for 1.0 FTE and one-time organization costs for establishing the proposed new Department of Transportation. The need for these funds would be contingent upon passage of a bill in the 1991 legislature creating the new department from the former Department of Highways and including transportation functions from the Departments of Commerce and Revenue. The funds would be used primarily for moving expenses, physical site changes, and computer systems conversions. The 1.0 FTE is a current

level FTE that would be transferred from the Department of Revenue as part of the reorganization.

Road Reporting System

The Executive Budget includes \$62,108 in the 1993 biennium from the highways state special revenue fund to provide road traffic information.

Approximately \$35,700 of the funds would be used for the increased costs of operating the statewide road report information toll-free telephone line as a public service. The increased cost is due to communication line cost increases and higher public usage of the service. The increased costs requested for this service were incurred in fiscal 1990, and the amount requested for this portion of the modification is the difference between actual fiscal 1990 costs and the fiscal 1991 appropriation used as base in the Executive Budget. Since the LFA current level is based on fiscal 1990 costs, these costs are already included in the LFA budget.

Additionally, approximately \$26,400 of the funds would be used for increased telephone equipment charges from the upgrade of permanent traffic monitoring sites on the interstate and primary systems with vehicle classification equipment that provides the capability to transmit the data automatically through telephone lines. This information is transmitted to the federal government for vehicle classification and traffic monitoring information, and is used by the department in planning future highway needs. The new equipment required for the monitoring sites is included in the Executive Budget current level.

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Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	872.99	872.99	895.94	898.24	25.25
Personal Services	23,940,644	26,306,928	27,132,622	27,146,570	8.02%
Operating Expenses	142,112,205	123,800,571	175,393,972	179,853,929	33.60%
Equipment	364,072	394,634	700,000	700,000	84.52%
Capital Outlay	3,238,933	7,105,100	3,250,000	3,250,000	-37.16%
Debt Service	2,814	3,069	3,069	3,069	4.33%
Total Program	\$169,658,668	\$157,610,302	\$206,479,663	\$210,953,568	27.55%
<u>Fund Sources</u>					
State Revenue Fund	74,132,579	62,513,078	62,643,512	65,977,626	-5.87%
Federal Revenue Fund	95,526,089	95,097,224	143,836,151	144,975,942	51.51%
Total Funds	\$169,658,668	\$157,610,302	\$206,479,663	\$210,953,568	27.55%

Program Description

The Construction program (Engineering Division) is responsible for construction project planning and development from the time a project is included in the long-range work plan through the actual construction of the project. The program's responsibilities include such tasks as project design, public hearings, right-of-way acquisitions, issuing contract bids, awarding contracts, and administering construction contracts. Contract administration is the supervision of highway construction projects from the time the contract is awarded to a private contractor until the project is completed and the work approved as meeting established construction standards. The Construction program consists of the combined Construction and Preconstruction programs as presented in the 1991 biennium budget.

to the 1991 biennium due to a significant increase in the level of planned construction projects, resulting from more than a 20 percent increase in federal aid funding. For the past several years, Montana has experienced base level federal aid funding of approximately \$100 million per year, with additional federal funding for special projects. In November 1990, the department learned that the Federal Highway Administration plans to increase federal aid funding significantly to spend down the federal highways trust fund that had amassed a large surplus due to restrictions on spending imposed by the provisions of the Gramm-Rudman Deficit Reduction Act. As a result, Montana will receive \$20 million per year for the next three to five years during the spend-down of the federal trust fund. Table 5 below shows the increase in the construction program compared to the 1991 biennium.

Current Level Budget

1993 Biennium Construction Plan

The Construction program current level budget increases 27.6 percent compared

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Table 5
Contractor Payments
Construction Plan Comparison
1991 and 1993 Bienniums
(In Millions)

	<u>-Appropriated- 1991 Biennium</u>	<u>---LFA C/L--- 1993 Biennium</u>	<u>Inc/(Dec)</u>
<u>Construction Plan</u>			
Federal Aid Construction	\$196.0	\$287.7	\$91.7
RTF Construction	<u>66.3</u>	<u>40.6</u>	<u>(25.7)</u>
Total	\$262.3	\$328.3	\$66.0
<u>Projected Actual Costs</u>			
Federal Aid Construction	\$171.6	\$287.7	\$116.1
RTF Construction	<u>90.7*</u>	<u>40.6</u>	<u>(50.1)</u>
Total	\$262.3	\$328.3	\$66.0
<u>Plan Changes</u>			
Budget Amendment	\$15.5		
FY 91 Supplemental	<u>18.0</u>		
Federal Aid Construction Incr.	<u>\$33.5</u>		
Total Revised Plan	<u>\$295.8</u>		

* 1991 biennium projection provided by the Department of Highways

As Table 5 shows, there is a net increase of \$66 million in the proposed 1993 biennium construction plan compared to the 1991 biennium construction plan approved by the legislature. Further, there is a change in type of projects. The construction plan is comprised of two major components -- federal aid projects, which are funded with an average 80/20 percent federal/state match, and RTF projects, which are 100 percent funded. As shown in Table 5, there is a \$50 million reduction in the RTF program compared to the projected 1991 biennium actual expenditures, while there is an increase of \$116 million in federal aid construction funds. Construction spending authority for federal aid projects added by budget amendment and by a proposed supplemental appropriation for fiscal 1991 will

result in an additional \$33.5 million in contractor payments in fiscal 1991 (shown in the table above as plan charges).

Current Level Analysis

In the LFA current level analysis, the highways construction plan is a zero-based budget item. Current level for the construction plan is considered to be the amount required to maximize the use of available federal aid funds (using state match funds) plus funding for up to \$40 million per year for 100 percent state funded RTF projects, as authorized in current law. The construction plan presented in LFA current level meets these objectives. However, the Department of Highways did not receive notice of the increased

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federal aid plan until early November, and a draft of the revised construction budget based on the new funding level was not available to the LFA until December 19. The budget details arrived too late to allow time for an in-depth analysis of the plan. The legislature may want to give further study to the following elements of the plan during the session.

Additional FTE

The construction plan includes the addition of 25.25 FTE during the 1993 biennium. In view of the significant increase in construction projects, it is apparent that additional resources will be required. The use of additional permanent staff appears reasonable since the new level of funding is expected to continue for at least three years. However, other options, including the use of private contractors or the use of more overtime, might be explored.

Use of Design Consultants

The construction plan anticipates the use of engineering consultants for project design for manpower requirements in excess of the department's current FTE authorized for project design. Over \$15 million for the biennium is included in the LFA current level budget. Since the use of engineering consultants cost up to 40 percent more than in-house design work, the legislature may wish to consider the long-range outlook for preconstruction backlogs and determine whether contract design services or hiring permanent staff is the most economical method of completing the work.

Contingency Budgeting

The LFA current level budget includes approximately \$135 million federal aid funds per year for the 1993 biennium. The current federal aid obligation authority is for \$120 million per year. The additional \$15 million included in the budget is for contingency funding, including "grab bag" funds often made available near the end of each fiscal year and other special projects funds. The department has consistently received this additional funding in the last

several years and has either been able to obligate the available funds within existing spending authority or has obtained additional authority through the budget amendment or supplemental appropriation process. Since the department anticipates these contingency funds will be available in the 1993 biennium, they are included in the LFA current level budget. The legislature may wish to consider whether to include the contingency funds in the 1993 biennium appropriation or to continue past practices of approving additional spending authority as needed when obligation authority from the federal government is actually received.

Budget Details

Personal services increase over 8 percent for the following reasons: 1) the addition of 22.95 FTE in fiscal 1992 and 25.25 FTE in fiscal 1993 as a result of the increased construction plan, at a cost of \$979,000 in the 1993 biennium; 2) a significant vacancy savings in fiscal 1990 due to a large turnover in personnel; 3) the fiscal 1991 pay plan increase that continues in the 1993 biennium; and 4) an increase in workers' compensation rates. The additional FTE, which include engineering technicians, materials laboratory aides, and survey aides, would supplement the current construction staff in administering construction contracts let to private contractors.

Operating expenses increase 33.6 percent, reflecting the increase in contractor payments for construction projects and in other operating costs related to the construction plan increase. Contractor payments for planned construction projects are \$162 million in fiscal 1992 and \$166 million in fiscal 1993. The remaining operating costs are continued at fiscal 1990 expenditure levels with only minor adjustments.

Equipment is budgeted at \$700,000 per year for the purchase of equipment on a priority basis, reflecting the average expenditure for equipment in this program for the last five years. Equipment needs identified by the department include Computer-Aided Design

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and Drafting (CADD) System upgrades (\$143,000), single-user computers, a new aerial camera (\$275,000), computers, communications equipment, laboratory equipment, and engineering equipment.

Capital Outlay, which is for the purchase of right-of-way land for projects scheduled to be let to contract, is continued at the fiscal 1990 expenditure levels. The amount appropriated in fiscal 1991 includes one-time spending authority to eliminate a backlog in right-of-way purchases.

Debt Service is for a leased telephone system.

State special revenue includes highway reconstruction trust funds of \$40.6 million for RTF construction projects, with the balance from the highways special revenue account. The highways special revenue account funds 100 percent of administrative overhead costs for the program and provides an average 20 percent match for approved federal aid projects, including preconstruction and contract administration costs. Federal aid funds are from the federal Highway Surface Transportation Act, which provide the average 80 percent federal match for construction projects.

Issue

Sunset of RTF Program

The RTF program was created by the 1983 legislature, authorizing a ten-year plan to improve Montana's primary highway system with a 100 percent state-funded program. Up to \$40 million per year was authorized to rebuild the system, in addition to the existing federal aid program. Since 1983, expenditures in the RTF program have averaged approximately \$30 million per year due to funding limitations. Funding for both the state match for federal aid and a fully funded RTF program were not available. The program is scheduled to sunset at the end of the 1993 biennium, when the 12 percent of coal severance tax reallocations earmarked for the program ends.

The RTF program has produced measurable improvements in the past eight years, including a 70 percent reduction in primary roads rated "poor" and an increase in the number of miles rated "excellent". Whether these improvements can be sustained when the RTF program ends remains a question.

In 1982, the department conducted an extensive needs assessment analysis to demonstrate the need for the RTF program. The Department of Highways states in its Report to the 52nd Legislature that it has recently conducted a needs assessment study and concluded that a continued RTF program is critical to supplement the insufficient federal aid program and maintain Montana's primary highway system. While the department states that a minimum standards RTF program would cost \$23 million per year, it has not presented a specific plan for continuation of the RTF program after the 1993 biennium. If fuel taxes were used to continue the RTF program beyond 1993, one cent of fuel tax would be needed for every \$5 million of annual RTF expenditures. Maintaining the current spending level (\$30 million per year) would require a six cent fuel tax increase.

Executive Budget Modifications

City Park Rest Areas

The Executive Budget includes \$400,000 highways state special revenue fund in the 1993 biennium to provide grants to local communities to upgrade city parks located along primary highways into highway rest areas. The community would own, manage, and maintain these city parks/rest areas. The agency contends that providing funds to upgrade city parks into highway rest areas would save state funds by delegating the long-term maintenance costs normally borne by the state to local governments. The average cost to upgrade each site is estimated to be \$200,000, and one site per year would be completed. Eighteen sites have been identified for possible conversion to highway rest areas.

CONSTRUCTION PROGRAM

Road Construction

The Executive Budget includes \$30,385,368 highways state special revenue fund in the 1993 biennium for increased highway construction costs over the fiscal 1991 appropriated level. The budget reflects an anticipated increase in the construction level (including increased contract administration costs) of \$29.6 million in fiscal 1992 and \$0.8 million in fiscal 1993. This request does not reflect the revised program budget, based on increased federal aid funding, as it was not available when the Executive Budget was published. The Executive Budget included the qualification that the Construction Program may change based upon revised federal aid figures.

The LFA current level provides funding for the Construction program 1993 biennium budget, including increases over 1991 biennium levels and revised program requirements based on increased federal aid funding. As noted above, the construction plan is considered to be a zero-based budget item and is budgeted to utilize all available

federal funding and provide funding for RTF projects within the limits of current law.

Engineering Consultants

The Executive Budget includes \$13,879,296 highways state special revenue fund in the 1993 biennium to hire engineering consultants to design future road construction projects that exceed current level manpower resources. The preconstruction design function is expected to be well above normal workload levels in the 1993 biennium, and the agency contends it is more cost effective to hire consultants for the increased workload than to increase permanent staff for a short time period. The amount requested is the increase over fiscal 1991 appropriated construction levels considered necessary for the increased project design workload.

These costs are included in LFA current level, as they are considered an integral part of the current level budget for the 1993 biennium construction plan. The total amount included in LFA current level for design consultants is \$15 million.

MAINTENANCE PROGRAM

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	654.88	654.88	654.88	654.88	.00
Personal Services	19,968,558	20,787,698	21,446,575	21,477,492	5.32%
Operating Expenses	23,743,262	25,107,928	25,618,859	25,473,882	4.59%
Equipment	286,351	187,214	187,214	187,214	-20.94%
Capital Outlay	131,784	71,490	118,400	118,400	16.49%
Total Program	\$44,129,955	\$46,154,330	\$47,371,048	\$47,256,988	4.81%
Fund Sources					
State Revenue Fund	44,129,955	46,154,330	47,371,048	47,256,988	4.81%
Total Funds	\$44,129,955	\$46,154,330	\$47,371,048	\$47,256,988	4.81%

Program Description

The Maintenance program is responsible for preserving and maintaining the state highway system and its related facilities. Major maintenance activities include the patching, repair, and periodic sealing of highway surfaces, snow removal, and sanding.

Current Level Budget

The Maintenance program current level budget increases 4.8 percent compared to the 1991 biennium due to increased personal services costs, increased equipment rental allocations, and inflationary adjustments.

Personal services increase 5.3 percent due to vacancy savings in fiscal 1990 and the fiscal 1991 pay plan increase that continues in the 1993 biennium. Offsetting decreases from fiscal 1990 levels include a \$128,000 per year reduction in overtime costs and the elimination of funding for three positions that remained vacant the entire biennium. The positions remain in current level as the program retains positions on a "contingency" basis in case of workload increases based on weather conditions and construction season lengths. The program historically has high vacancy savings and can fund the positions as required from current level authority.

Operating expenses increase 4.6 percent due to: 1) an increase of \$512,000 in fiscal 1992 and \$854,000 in fiscal 1993 of the allocation by the Equipment Bureau (proprietary fund) for equipment rental; and 2) inflationary adjustments of \$1,428,000 in fiscal 1992 and \$938,000 in fiscal 1993. Minor adjustments to fiscal 1990 base levels are made to eliminate one-time costs associated with underground tank monitoring and repair and for small increases in weed control costs and in maintenance contracts for rest areas. All other operating expenses are carried forward at fiscal 1990 expenditure levels.

Equipment includes \$154,282 for communications equipment, \$22,369 for office equipment replacement, \$188,227 for shop and industrial equipment, \$5,200 for computers, and \$4,350 for photographic and other miscellaneous equipment.

Capital outlay includes \$80,000 per year for purchases of land for gravel production and storage sites, and \$38,400 per year for tank and building improvements.

The Maintenance program is funded entirely by highways special revenue funds.

MAINTENANCE PROGRAM

Executive Budget Modifications

Monitoring Fuel Tanks

The agency has requested \$2,219,600 highways state special revenue fund in the 1993 biennium for upgrading existing underground fuel storage tanks with cathodic protection and leak detection devices to comply with new federal regulations mandated by the Environmental Protection Agency. Severe penalties can be assessed in the event of noncompliance. The first phase of this program, which began in the 1991

biennium, consisted of removal of nonessential tanks and removal/replacement of department and Montana Highway Patrol tanks that were over 15 years old. The 1993 biennium phase will deal with upgrading 168 tanks, testing 58 tanks for leaks, removal and replacement of 58 leaking tanks and the clean-up of those localized sites, and installation of monitoring devices on the 226 remaining tanks that are less than 15 years old. In succeeding bienniums, there will be continuing costs associated with annual maintenance of the tank monitoring system.

STATE MOTOR POOL

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	5.00	5.00	5.00	5.00	.00
Personal Services	128,901	133,433	139,700	139,736	6.52%
Operating Expenses	221,925	243,733	249,715	239,665	5.09%
Equipment	<u>666,403</u>	<u>650,000</u>	<u>362,250</u>	<u>218,000</u>	<u>-55.92%</u>
Total Program	\$1,017,229	\$1,027,166	\$751,665	\$597,401	-34.01%

Fund Sources

Proprietary Fund	<u>1,017,229</u>	<u>1,027,166</u>	<u>751,665</u>	<u>597,401</u>	<u>-34.01%</u>
Total Funds	<u>\$1,017,229</u>	<u>\$1,027,166</u>	<u>\$751,665</u>	<u>\$597,401</u>	<u>-34.01%</u>

Program Description

The State Motor Pool operates and maintains a fleet of vehicles available to all state offices and employees in the Helena area to conduct official state business.

Current Level Budget

The decrease in the equipment budget of 55.9 percent (\$736,153) is the major reason for the 34 percent decrease in current level. The equipment budget for the 1993 biennium is at the level requested by the agency and will allow the purchase of 31 vehicles in fiscal 1992 and 18 in fiscal 1993. In the 1991 biennium, the Motor Pool program had an equipment budget that allowed for the purchase of 129 vehicles which was 72 percent of their vehicle fleet. This included the purchase of new vehicles to increase the fleet from 158 to the present 180 vehicles.

Personal services increase 6.5 percent. The program experienced almost no vacancy savings during fiscal 1990 even though there was turnover in two positions. Personal services costs saved by the staff turnover was used to fund the supervisor's position. This position was budgeted at grade 11, step 9, but the current supervisor is being paid at step 13, causing a personal services budget "shortfall" of approximately \$3,100 in fiscal 1991. The 1993 biennium budget contains full funding for all five positions at current salary levels.

The operating expense budget was based on fiscal 1990 expenditures except for payroll fees and rent (which are based on fixed costs allocations) and shop supplies (which are increased by \$2,344 annually because fiscal 1990 expenditures were low as compared to previous fiscal years). Inflationary adjustments (primarily for gasoline) add \$25,412 in fiscal 1992 and \$15,582 in fiscal 1993.

EQUIPMENT PROGRAM

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	121.00	121.00	121.00	121.00	.00
Personal Services	3,549,330	3,747,087	3,785,680	3,792,150	3.86%
Operating Expenses	4,430,069	4,463,817	4,772,623	4,625,845	5.67%
Equipment	<u>4,902,921</u>	<u>4,905,659</u>	<u>4,905,659</u>	<u>4,905,659</u>	<u>.03%</u>
Total Program	\$12,882,320	\$13,116,563	\$13,463,962	\$13,323,654	3.03%
<u>Fund Sources</u>					
Proprietary Fund	<u>12,882,320</u>	<u>13,116,563</u>	<u>13,463,962</u>	<u>13,323,654</u>	<u>3.03%</u>
Total Funds	\$12,882,320	\$13,116,563	\$13,463,962	\$13,323,654	3.03%

Program Description

The Equipment program is responsible for the purchase, distribution, and maintenance of all highway equipment and vehicles necessary to meet the department's construction, maintenance, and Gross Vehicle Weight enforcement needs. The equipment, which operates under a proprietary fund, is rented to the other programs within the Department of Highways.

Current Level Budget

The current level budget increases 3 percent principally in personal services and operating expenses. Personal services increase due to vacancy savings in fiscal 1990 and the fiscal 1991 pay plan increase which continues in the 1993 biennium.

Operating expenses increase 5.7 percent (\$504,600) between the two biennia. The following adjustments were made to fiscal 1990 actual expenditures, which were used as the base for the 1993 biennium current level budget: 1) insurance and payroll fees decrease approximately \$13,000 per fiscal year; 2) long distance costs increase \$5,300 per fiscal year to reflect previous years' actual expenditures; 3) travel decreases \$4,700 to the requested level, which is consistent with previous years' expenditures; and 5) inflationary adjustments (primarily in fuel costs) add \$588,000 for the biennium.

Equipment, which is as requested by the agency, allows for on-going replacement of the highway's equipment fleet.

INTERFUND TRANSFERS PROGRAM

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	.00	.00	.00	.00	.00
Transfers	<u>32,884,364</u>	<u>25,655,637</u>	<u>14,208,404</u>	<u>17,149,771</u>	<u>-46.43%</u>
Total Program	\$32,884,364	\$25,655,637	\$14,208,404	\$17,149,771	-46.43%
<u>Fund Sources</u>					
State Revenue Fund	<u>32,884,364</u>	<u>25,655,637</u>	<u>14,208,404</u>	<u>17,149,771</u>	<u>-46.43%</u>
Total Funds	<u>\$32,884,364</u>	<u>\$25,655,637</u>	<u>\$14,208,404</u>	<u>\$17,149,771</u>	<u>-46.43%</u>

Program Description

The Interfund Transfers program provides appropriation authority for the transfer of funds between accounting entities and distribution to the sinking fund for the retirement of bonds.

sents the amount required in the RTF account to fund the remaining cost of RTF projects after expenditure of coal severance tax revenues that are deposited directly to the account. The decrease in program transfer authority reflects an anticipated decrease in RTF projects in the 1993 biennium.

Current Level Budget

The current level budget includes transfer authority to transfer \$31,358,175 during the 1993 biennium from the highways state special revenue account to the RTF account for 100 percent state funded construction projects. The transfer budget repre-

Debt service transfers from this program on highway construction and building bond issues will be \$10,655,333 in fiscal 1992 and \$18,476,333 in fiscal 1993. These payments are not included in current level because they are statutorily appropriated in Section 17-7-502(4), MCA.

STORES INVENTORY

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	.00	.00	.00	.00	.00
Operating Expenses	<u>12,613,907</u>	<u>12,744,300</u>	<u>14,659,684</u>	<u>14,100,844</u>	<u>13.42%</u>
Total Program	\$12,613,907	\$12,744,300	\$14,659,684	\$14,100,844	13.42%
<u>Fund Sources</u>					
State Revenue Fund	<u>12,613,907</u>	<u>12,744,300</u>	<u>14,659,684</u>	<u>14,100,844</u>	<u>13.42%</u>
Total Funds	\$12,613,907	\$12,744,300	\$14,659,684	\$14,100,844	13.42%

Program Description

The Stores Inventory program purchases and distributes commodities (such as office and construction supplies) and bulk items (such as sand, road oil, and gasoline) used by other highway department programs. Stores operations are maintained in Helena and in each of the field districts. The Helena stores' facility services the department headquarters and shop facility and also acts as the central receiving and distribution center for all quantity stores commodities.

some gas inventories of its own); 2) an increased allocation by the Equipment Bureau for equipment rental, \$127,000 in fiscal 1992 and \$156,000 in fiscal 1993; 3) an increase for the purchase of sand to the fiscal 1991 appropriated level to allow inventory replenishment, \$195,800 per year; and 4) inflationary adjustments of \$1,630,000 in fiscal 1992 and \$1,045,000 in fiscal 1993. These increases are partially offset by a reduction of \$139,900 per year, as requested by the agency. The total amount budgeted for this program reflects the supply needs included in the current level budget for other user programs.

Current Level Budget

The Stores Inventory current level budget increases 13.4 percent compared to the 1991 biennium. Increases over fiscal 1990 are due to: 1) direct purchase of gasoline by the Montana Highway Patrol from the Department of Highways Stores Inventory (\$230,000 per year-the Highway Patrol previously had

The program is funded from the highways special revenue account and receives reimbursement from other department programs which procure these commodities. The accounting procedure used for Stores Inventory results in a double appropriation for the agency.

GROSS VEHICLE WEIGHT DIVISION

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	111.03	111.03	110.03	110.03	-1.00
Personal Services	2,736,471	3,026,007	3,009,937	3,012,592	4.51%
Operating Expenses	538,035	637,126	566,582	574,614	-2.89%
Equipment	16,595	19,500	35,000	23,000	60.69%
Capital Outlay	79,357	120,000	0	0	-100.00%
Total Program	\$3,370,458	\$3,802,633	\$3,611,519	\$3,610,206	.68%
<u>Fund Sources</u>					
State Revenue Fund	3,370,458	3,802,633	3,611,519	3,610,206	.68%
Total Funds	\$3,370,458	\$3,802,633	\$3,611,519	\$3,610,206	.68%

Program Description

The Gross Vehicle Weight (GVW) Division is responsible for enforcement of the statutes and regulations relating to vehicle weight, size, licensing, fuel, and safety on the state's highways (Title 61, MCA). It also issues permits and operating authority for commercial vehicles and collects gross vehicle weight fees. The Fiscal Bureau registers interstate fleet vehicles, issues GVW fee licenses, issues oversize and overweight permits, and collects fees and taxes. The Compliance Bureau operates weigh stations across the state and assigns enforcement officers to inspect vehicles for compliance with registration, fuel, size, and weight laws.

Annual operating expenses are higher than the fiscal 1990 expenditure level. The 1993 biennium budget is based on fiscal 1990 actual expenditures with increases in vehicle rent of \$42,200 for the biennium, approximately \$17,600 in uniforms costs, and biennial inflation adjustments of \$12,600.

The equipment budget is for a personal computer in fiscal 1992 and eight portable scales and scale readout instruments.

Funding from the program comes entirely from the highway account. The GVW program generates revenues for this account from gross vehicle weight fees, licenses, and fines and permits.

Executive Budget Modifications

Automated Weigh Stations

The current level budget increases less than 1 percent in the 1993 biennium as a result of a 4.5 percent increase in personal services with an offsetting decrease in capital outlay. Personal services increase due to a 6.2 percent vacancy savings in fiscal 1990 and the fiscal 1991 pay plan which continues in the 1993 biennium. The increase is partially offset by the elimination of a vacant 1.0 FTE enforcement program supervisor position, at a biennial savings of \$60,200.

The Executive Budget includes \$312,520 of highways state special revenue funds in the 1993 biennium for automation of specific functions at the state's weigh stations, including on-line access to GVW enforcement data. Fax machines and computers would be installed at a cost of \$212,520 to provide better service to the trucking industry and to improve data flow from headquarters. Telephone line expenses would be \$100,000 to operate the new equipment. The agency expects permit revenues to increase because the data can be accessed at any

GROSS VEHICLE WEIGHT DIVISION

time to see if a user has the proper permits and tags.

GVW Officer Training

The agency has requested \$55,330 highways state special revenue fund in

the 1993 biennium for GVW officer training. The training would include law enforcement training at the state Law Enforcement Academy, computer training for the proposed new computers at weigh stations (see the "Automated Weigh Stations" modified above), and handling of hazardous waste.



HUMAN SERVICES

COMPARISON OF EXECUTIVE AND LFA CURRENT LEVELS

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Budget Item	Executive Current Level		LFA Current Level		Executive Over(Under) LFA
	Fiscal 1992	Fiscal 1993	Fiscal 1992	Fiscal 1993	
FTE	172.07	172.07	291.85	291.85	(119.78)
Personal Services	5,075,889	5,072,241	8,837,551	8,831,042	(7,520,463)
Operating Expenses	4,224,470	4,244,187	7,527,908	7,570,568	(6,629,819)
Equipment	251,677	15,667	94,022	95,059	78,263
Grants	7,031,612	7,031,612	8,320,946	8,320,946	(2,578,668)
Benefits and Claims	6,024,927	6,022,296	6,022,171	6,019,540	5,512
Total Agency	\$22,608,575	\$22,386,003	\$30,802,598	\$30,837,155	(\$16,645,175)
<u>Fund Sources</u>					
General Fund	2,689,408	2,719,830	3,351,771	3,372,472	(1,315,005)
State Revenue Fund	1,271,118	1,237,894	3,838,979	3,841,839	(5,171,806)
Federal Revenue Fund	17,677,237	17,454,986	22,512,232	22,521,793	(9,901,802)
Proprietary Fund	970,812	973,293	1,099,616	1,101,051	(256,562)
Total Funds	\$22,608,575	\$22,386,003	\$30,802,598	\$30,837,155	(\$16,645,175)

Executive Budget Comparison

The LFA current level is \$16.65 million higher than the Executive Budget current level in the 1993 biennium primarily due to the transfer of most environmental programs and some support staff to the

proposed Department of Natural Resources and the Environment.

Reorganization

The following table shows the current level programs and funding transferred to the proposed department.

Table A
Department of Health and Environmental Sciences
Proposed Reorganization

Function Transferred	-Transfers In-		-Transfers Out-		-Net Change-	
	FTE	Expenses	FTE	Expenses	FTE	Expenses
Director's Office			1.00	\$ 48,391	-1.00	\$ (48,391)
Centralized Services			4.00	189,726	-4.00	(189,726)
Environmental Sciences Div			21.03	4,350,987	-21.03	(4,350,987)
Solid/Hazardous Waste			59.25*	19,484,284	-59.25	(19,484,284)
Water Quality	0.00	\$0	44.75	5,188,420	-44.75	(5,188,420)
Total	0.00	\$0	130.03	\$29,261,808	-130.03	\$(29,261,808)

*Includes 8.25 FTE not included in LFA current level.

For a detailed discussion of the proposed reorganization, see the Natural

Resources and Commerce section of the Budget Analysis. The following section

DEPARTMENT OF HEALTH & ENVIRONMENTAL SCIENCES

discusses issues in the programs of the current Department of Health and Environmental Sciences. The following table compares the LFA current level to

the Executive Budget in the Health Services and Medical Facilities Division, which is not impacted by the reorganization.

Table B
Health Services and Medical Facilities Division
Comparison of LFA Current Level to Executive Budget
1993 Biennium

	<u>Executive Current Level</u>	<u>LFA Current Level</u>	<u>Executive Over/(Under) LFA</u>
FTE	91.57	89.57	2.00
Division Administration	\$ 238,068	\$ 224,907	\$ 13,161
Emergency Medical Services	1,138,313	1,055,072	83,241
Health Planning	188,978	186,668	2,310
Family/MCH Bureau	30,203,383	29,571,519	631,864
Preventive Health Bureau	2,917,508	3,121,601	(204,093)
Licensing/Cert/Construct Bureau	<u>2,734,365</u>	<u>2,702,557</u>	<u>31,808</u>
Total	\$37,420,615	\$36,862,324	\$558,291

LFA current level has 2.0 fewer FTE due to elimination of 2.0 FTE maintained the Executive Budget, which is discussed in the "Issues" that follow.

The differences in the Family\MCH and Preventive Health Bureau are primarily because the Executive Budget transfers the Perinatal program from the Preventive Health Bureau to the Family\MCH, while the LFA current level maintains the program in the Preventive Health Bureau. The Executive Budget also funds \$204,000 in equipment in the WIC program within the Preventive Health Bureau which is not included in the LFA

current level. Remaining differences are primarily due to differences in the funding base used in the LFA and the Executive Budget current levels.

Issues

Maternal and Child Health Block Grant

The following table compares the Executive Budget allocation of the federal maternal and child health block grant with the LFA current level allocations. The grant is used to provide services to women and children through state and county programs.

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Table C
Maternal and Child Health Block Grant
1993 Biennium

<u>Disbursements</u>	<u>LFA</u>	<u>Executive</u>
Dental\Medical	\$ 140,021	\$ 186,719
Health Services Administration	59,811	63,298
Family Planning	58,000	58,000
Family\Maternal & Child Health Admin	391,506	472,960
Handicapped Children	1,781,162	1,691,875
Perinatal\PH Bureau Admin	391,647	284,911
Grants to Counties	1,378,180	1,344,632
Low Birthweight Prevention*	-0-	130,000
Total Disbursements	\$4,200,327	\$4,232,395

*Part of Perinatal Program\Preventive Health Bureau Administration in LFA current levels.

The difference in funding for the Dental\Medical Unit is because the Executive Budget includes approximately \$20,000 each year to partially support a medical director not included in the LFA current level. The difference in the Handicapped Childrens' Services program is because inflation is applied to all medical services in the LFA current level while the Executive Budget

maintains the fiscal 1991 appropriation. The remainder of the differences are primarily due to the different funding bases used in the LFA and Executive Budget current levels.

Preventive Health Block Grant

The following table compares LFA current level and executive allocations of the federal preventive health block grant.

Table D
Preventive Health Block Grant
1993 Biennium

<u>Disbursements</u>	<u>LFA</u>	<u>Executive</u>
Public Health Laboratories	\$ 134,000	\$ 133,674
Health Services Administration	26,784	27,346
Emergency Medical Services	338,115	372,667
Family Planning	410,000	407,743
Perinatal\PH Bureau Admin	150,873	155,164
Health Education	94,766	122,636
Rape Crisis	23,936	23,936
Total Disbursements	\$1,178,474	\$1,243,166

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The differences between the Executive Budget and the LFA current level are primarily due to the different funding bases used.

Indirect Cost Assessments

Due to the reorganization and subsequent reduction in the size of the Centralized Services Division and the Director's Office, the Executive Budget assesses \$393,966 less indirect costs against other programs of the department for their support. The Executive Budget includes \$1,769,571 over the biennium in indirect costs, while the LFA current level includes \$2,163,537.

A further discussion of the impact of the proposed reorganization on indirect costs is included in the Natural Resources and Conservation section of the Budget Analysis.

FTE Differences

After the effects of the reorganization are removed, the Executive Budget includes a net 10.25 FTE increase over the LFA current level as a net result of:

1) addition of a 1.0 FTE medical advisor for the department in the Executive Budget. Total cost over the biennium is \$134,765, including approximately \$120,000 of general fund. The position would be converted from a position the agency is proposing for elimination in the Health Planning Bureau due to the sunset of a portion of the Certificate of Need (CON) statutes on June 30, 1991. Because the converted position is scheduled to end, it is not included in LFA current level;

2) elimination of 2.0 FTE in the LFA current level -- 1.0 FTE in the AIDS Program and 1.0 FTE in the Licensing, Certification, and Construction Bureau -- that have been vacant since the beginning of fiscal 1990 while the department attempted to secure grade changes (the Executive Budget maintains both positions);

3) deletion in the Executive Budget of a 1.0 FTE administrative officer position in the Director's Office due to extended

vacancy and a proposed reduction in duties due to the reorganization of the department. The position is retained in the LFA current level and funded with indirect funds totaling \$70,775 in the 1993 biennium;

4) elimination in the LFA current level of 1.5 FTE and related operating expenses in the Landfill Review/Permitting program. The positions were added by the 1989 legislature to develop regulations for out-of-state importation of solid wastes and have not been filled due to the state's importation moratorium. The Executive Budget maintains the program at a total cost of \$132,536 over the biennium funded with fee income; and

5) inclusion in the Executive Budget current level of 6.75 FTE--4.0 FTE in the Superfund Program and 2.75 FTE in the State Superfund Program--that were added in fiscal 1990 and 1991 via operational plan change. Because these positions have not been reviewed by the legislature, they are not included in LFA current level.

Superfund and State (Mini) Superfund

The Executive Budget is \$9.58 million higher than LFA current level for the biennium as a result of: 1) continuing in the 1993 biennium the increased staff added through operational plan changes during the 1991 biennium interim; and 2) funding the operating expenses of the Superfund and State Superfund programs at the fiscal 1991 appropriated levels. LFA current level maintains funding at actual fiscal 1990 expenditures and the FTE level authorized by the 1989 legislature.

Solid Waste Management Fee

The Executive Budget is proposing that \$80,650 of the total \$181,225 in the Solid Waste Management Program of the Solid and Hazardous Waste Bureau in fiscal 1993 be funded with a new fee levied against the users of landfills. LFA current level continues to fund the program with general fund.

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Environmental Quality Protection

The environmental quality protection fund was established to receive damages paid by responsible parties for damage done to the environment and to fund necessary remedial work. The Executive Budget includes \$1,000,000 each year for expenditure from the fund. Since this has historically not been included in the general appropriations bill, no funds are included in LFA current level for this purpose.

Licensing, Certification, and Construction Bureau

LFA current level includes \$103,741 more general fund over the biennium than the Executive Budget in the Licensing, Cert-

ification, and Construction Bureau primarily because LFA current level funds the bureau in accordance with federal mandates (one-third general fund, one-third medicaid, one-third medicare). The Executive Budget maintains general fund at approximately the same ratio to total expenditures as was experienced in fiscal 1990.

Executive Budget Modifications

In addition to the \$45.0 million current level budget, the Executive Budget includes \$15,704,641 in modified budget requests for the department in the 1993 biennium. These modifications are listed in the following agency narrative and discussed in more detail in the program narratives that follow.

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Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	299.35	300.35	291.85	291.85	-8.50
Personal Services	7,795,142	9,075,301	8,837,551	8,831,042	4.73%
Operating Expenses	7,261,122	13,275,229	7,527,908	7,570,568	-26.48%
Equipment	372,198	130,088	94,022	95,059	-62.36%
Grants	7,512,557	8,463,310	8,320,946	8,320,946	4.17%
Benefits and Claims	<u>5,443,705</u>	<u>6,029,020</u>	<u>6,022,171</u>	<u>6,019,540</u>	<u>4.96%</u>
Total Agency	\$28,384,724	\$36,972,948	\$30,802,598	\$30,837,155	-5.69%
Fund Sources					
General Fund	3,151,507	3,637,573	3,351,771	3,372,472	-.96%
State Revenue Fund	3,563,363	4,295,283	3,838,979	3,841,839	-2.26%
Federal Revenue Fund	20,738,173	28,067,256	22,512,232	22,521,793	-7.73%
Proprietary Fund	<u>931,681</u>	<u>972,836</u>	<u>1,099,616</u>	<u>1,101,051</u>	<u>15.55%</u>
Total Funds	\$28,384,724	\$36,972,948	\$30,802,598	\$30,837,155	-5.69%

Agency Description

The Department of Health and Environmental Sciences (DHES) was created to protect and promote the health of the people of Montana through the implementation of public health programs and the enforcement of public health laws and regulations. The department is also responsible for ensuring that a safe and healthful environment exists in Montana through implementation of environmental protection programs and enforcement of environmental laws and regulations. Department staff is responsible for: 1) assessment of health care and environmental needs and problems in cooperation with local and private sources; 2) development and implementation of programs designed to meet health and environmental needs and alleviate problems; and 3) continual evaluation of current public health and environmental programs. The department administers the maternal and child health block grant, the preventive health block grant, and categorical grants from the federal government. Examples of categorical grants include federal funding for solid and hazardous waste, and air and water quality programs. The department is provided for in Section 2-15-2101, MCA, and its

general powers and duties are specified in Section 50-1-202, MCA.

Current Level Budget

The department's current level budget for the 1993 biennium is \$6.1 million less than the appropriated level in fiscal 1991 because for most programs it is based upon actual expenditures in fiscal 1990, which were lower than the fiscal 1991 appropriation. In particular, the Superfund and State Superfund programs expended \$4.8 million less in fiscal 1990 than the fiscal 1991 appropriation. However, in certain programs which involve state primacy issues or federal mandates, the current level budget is based upon appropriated levels. In total, the LFA current level for the 1993 biennium is 8.5 percent higher than fiscal 1990 expenditures.

FTE are reduced by 8.5 from fiscal 1991 due to: 1) 2.0 FTE eliminated due to extended vacancies; 2) 1.5 FTE eliminated due to the moratorium on out-of-state importation of solid wastes; 3) 2.5 FTE eliminated by the agency due to sunset of portions of the Certificate of Need law; 4) 2.0 FTE added by the 1989 legislature that the agency proposes to delete; and 4) a 0.5 FTE reclassified to contracted services.

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General fund increases due to general expenditure increases and because the Licensing, Certification, and Construction Bureau is funded to meet federal cost sharing requirements. Offsetting these increases is replacement of general fund in the Legal Unit with proprietary income as directed by the 1989 legislature. While state special revenue decreases over the biennia, it increases from fiscal 1990 to fiscal 1992 primarily due to budgeting environmental programs at fiscal 1990 appropriated levels. Federal revenue decreases over the biennia primarily due to maintenance of

fiscal 1990 expenditure levels in the Superfund program. The change in funding for the Legal Unit increases proprietary income.

Federal Block Grants

The department receives two federal block grants: 1) the maternal and child health block grant; and 2) the preventive health block grant. The following table shows the actual fiscal 1990 expenditures, the fiscal 1991 appropriation, and current level allocations for fiscal years 1992 and 1993 of the maternal and child health block grant.

Table 1
Maternal and Child Health Block Grant
Fiscal 1990 through 1993

	Actual FY 90	Appropriated FY 91	FY 92	FY 93
Revenue				
Carryover	\$ 278,526	\$ 73,262	\$ 0	\$ 38,075
Revenue	<u>2,117,807</u>	<u>2,117,807</u>	<u>2,120,000</u>	<u>2,125,000</u>
Total Funds	<u>\$2,396,333</u>	<u>\$2,191,069</u>	<u>\$2,120,000</u>	<u>\$2,163,075</u>
Disbursements				
Dental	\$ 55,369	\$ 73,702	\$ 70,094	\$ 69,927
Health Services Admin	28,340	29,981	29,932	29,879
Family Planning	29,000	29,000	29,000	29,000
Fam/MCH Admin	184,978	240,200	195,809	195,697
Handicapped Child	835,083	836,639	873,279	907,883
Perinatal/PH Admin	152,894	154,965	194,721	196,926
Grants to Counties	671,765	672,316	689,090	689,090
Low Birthweight*	65,999	65,000		
Case Management	21,117			
Carryover to Ctys	<u>278,526</u>	<u>89,266</u>		
Total Disburse	<u>\$2,323,071</u>	<u>\$2,191,069</u>	<u>\$2,081,925</u>	<u>\$2,118,402</u>
Ending Fund Balance	\$ 73,262	\$ 0	\$ 38,075	\$ 44,673

*Part of Perinatal Program/Preventive Health Bureau Administration

This block grant must be matched on a ratio of 3/7 state funds to 4/7 federal funds. The state match in fiscal 1990

was met with general fund appropriated to: 1) the genetics program at Shodair Hospital; and 2) the state immunization,

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family planning, communicable diseases programs in the department of health, and with newborn screening test expenditures in the health laboratory and through services provided by the counties. The 1989 legislature specified that any carryover funds or additional grant money available over the appropriated amount must be allocated to the counties. In fiscal 1990, the counties received an additional \$278,526 over the original

appropriation of \$671,765. Additional funds available over the amount allocated in current level could be used either for grants to the counties or for program expansion.

Table 2 shows fiscal 1990 actual expenditures, the fiscal 1991 appropriation, and the 1993 biennium current level allocation for the preventive health block grant.

Table 2
Preventive Health Block Grant
Fiscal 1990 through 1993

	<u>Actual FY 90</u>	<u>Allocated FY 91</u>	<u>FY 92</u>	<u>FY 93</u>
Revenue				
Carryover	\$ 1,360	\$ 0	\$ 0	\$ 0
Revenue	<u>589,237</u>	<u>589,237</u>	<u>589,237</u>	<u>589,237</u>
Total Funds	<u>\$590,597</u>	<u>\$589,237</u>	<u>\$589,237</u>	<u>\$589,237</u>
Disbursements				
Public Health Lab	\$ 66,743	\$ 66,837	\$ 67,000	\$ 67,000
Health Services Admin	12,633	13,325	13,404	13,380
Emerg. Med. Services	166,797	181,610	168,291	169,824
Family Planning	202,015	202,079	205,000	205,000
Perinatal/PH Admin.	69,667	68,052	76,299	74,574
Health Education	42,631	53,900	47,275	47,491
Rape Crisis	11,968	11,968	11,968	11,968
Dir's Discretion	<u>18,143</u>	<u>(8,534)</u>		
Total Disbursements	<u>\$590,597</u>	<u>\$589,237</u>	<u>\$589,237</u>	<u>\$589,237</u>
Ending Fund Balance	\$ 0	\$ 0	\$ 0	\$ 0

The preventive health block grant has no matching requirements. However, the department must expend at least \$11,290 for rape crisis prevention in order to receive the grant. The grant also has a nonsupplantation clause (the funds cannot be used to replace any current state supported program). The 1989 legislature specified that any funds received in excess of the appropriation would be used at the discretion of the department director. Discretionary funds totaled \$18,143 in fiscal 1990.

Resource Indemnity Trust

Current Montana law allocates a portion of the interest income from the Resource Indemnity Trust (RIT) to the Department of Health and Environmental Sciences for environmental programs. The department receives: 1) 12 percent for implementation of the Montana Hazardous Waste Act, for the state share of federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA), and for state

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expenses relating to investigation of specifically defined hazardous waste; and 2) 4 percent to address the release of hazardous wastes not falling under federal jurisdiction (state or mini-superfund), which is part of the environmental quality protection fund.

The following table shows anticipated revenue into the two accounts receiving RIT interest in the 1993 biennium and LFA current level allocations of the interest income.

Table 3
Income and Disbursements - DHES RIT Accounts
1993 Biennium

	12 Percent RIT		Environmental Quality Protection	
	FY 92	FY 93	FY 92	FY 93
Beginning Fund Balance	\$1,001,565	\$1,336,996	\$ 784,394	\$ 893,375
Anticipated Revenue	<u>1,128,586</u>	<u>1,196,182</u>	<u>1,338,029**</u>	<u>1,360,561**</u>
Total Funds Available	<u>\$2,130,151</u>	<u>\$2,533,178</u>	<u>\$2,122,423</u>	<u>\$2,253,936</u>
Disbursements				
Environmental Quality Protection Fund*			\$1,000,000	\$1,000,000
Environmental Sciences Admin.	\$ 74,434	\$ 74,337		
Asbestos Program	57,609	57,612		
Solid/Hazardous Waste Bureau				
Hazardous Waste	133,571	133,485		
Underground Storage Tanks	55,923	55,692		
Leaking Underground Strg. Tanks	72,024	72,004		
Superfund Core	22,441	22,470		
State Superfund			229,048	229,050
Water Quality Bureau				
Water Quality Management	62,494	62,865		
Water Pollution Control	85,386	85,386		
Public Water Supply	124,325	124,148		
Clark Fork	<u>104,948</u>	<u>105,237</u>		
Total Disbursements	<u>\$793,155</u>	<u>\$793,236</u>	<u>\$1,229,048</u>	<u>\$1,229,050</u>
Remainder	\$1,336,996	\$1,739,942	\$ 893,375	\$1,024,886

* No amount is included in current level as the legislature makes this appropriation in separate legislation. The amount in the 1993 biennium is the fiscal 1990 appropriated level.

**Four percent RIT totals \$324,529 in fiscal 1992 and \$347,061 in fiscal 1993.

Indirect Costs

Certain functions in the Centralized Services Division are funded with indirect charges made against the actual personal services costs of all programs

because they provide services department-wide. The following table shows the programs and current level costs funded with indirect charges and the amounts added to the divisions and programs of the department to fund the assessment.

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Table 4
Indirects - Recipient and Assessed Programs
1993 Biennium

----- Recipient Programs -----		
<u>Program</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
Director's Program		
Director's Office	\$ 236,751	\$ 236,817
Centralized Services		
Division Administration	156,816	158,904
Support Services	<u>543,820</u>	<u>543,272</u>
Total	<u>\$ 937,387</u>	<u>\$ 938,993</u>
----- Assessed Programs -----		
<u>Program</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
Director's Program	\$ 31,465	\$ 31,400
Centralized Services*	127,138	127,136
Environmental Sciences	148,538	148,401
Solid/Hazardous Waste	201,881	201,681
Water Quality	199,916	199,813
Health Services	53,054	53,063
Family/MCH Bureau	106,659	106,525
Preventive Health Bureau	76,119	76,065
Licensing and Certification	<u>131,679</u>	<u>131,201</u>
Total	<u>\$1,076,449</u>	<u>\$1,075,285</u>

*Film library and the laboratories

Indirect costs assessed exceed the indirect-supported program costs because a portion of the assessment made against federal funds is deposited to the general fund under the statewide cost allocation plan (SWCAP).

State Primacy in Federal Environmental Programs

DHES has been designated by the Environmental Protection Agency (EPA) as the lead agency in the regulation and enforcement of various environmental programs in the state. As a result, Montana has "primacy" in these programs. In order to achieve primacy, a state must demonstrate two things:

1) that state programs are similar enough to federal programs that EPA is assured that in enforcing its own state programs, EPA programs will also be enforced; and

2) sufficient resources are available to enforce the programs.

Primacy may be achieved in any or all environmental programs.

In recent years, the federal requirements in several environmental programs (including air quality, solid waste/landfill, public water supply, and hazardous waste) have been expanded. To maintain primacy, state programs and state staff must be similarly expanded to ensure proper enforcement. In a

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December 1989 letter to DHES, the director of the Montana EPA office expressed concern that DHES did not have sufficient staffing in several environmental programs to maintain state primacy. The letter listed five programs in which additional staff was needed and specified the required number in two programs: Solid Waste (4.0-5.0 FTE); Public Water Supply (8.0-10.0 FTE); Superfund; Air Quality; and Hazardous Waste. Lastly, the director requested that primacy on the Silver Bow Creek Superfund site be returned to the EPA.

Impact of the Loss of Primacy

There are two impacts to loss of primacy: programmatic and financial.

Programmatic. If primacy is withdrawn, the EPA would assume all enforcement duties for federal programs. The state would be responsible for enforcement of state programs only. Consequently, those impacted by the programs would deal directly with the EPA and duplication would exist where the two programs overlapped. While the state regulations would not have to conform to federal statutes and regulations, all EPA programs requirements would still have to be met.

Financial. When primacy is granted, the EPA provides funds to enable the state to carry out enforcement and regulation of the programs (with the exception of solid waste/landfill, for which no federal funds are available). Generally, the state must contribute to this support in the form of a matching requirement. If the matching requirement is 25 percent, the state is subsidized for 75 percent of the cost of enforcing the program. Therefore, in order for the state to realize any financial savings, the cost of maintaining the state program must be no more than 25 percent of the cost of also maintaining the federal program. No studies have been done to determine the cost of enforcing only the state environmental programs.

Executive Response

The following table shows the additions made in the 1991 biennium through budget amendment and operational plan change in response to the EPA's letter and the proposed additions to the 1993 biennium contained in the Executive Budget in response to EPA primacy issues. The department also added an annualized 3.0 FTE to the Centralized Services Division in the 1991 biennium due to increased federal grants and staffing. These positions are included in the 1993 biennium Executive Budget in a budget modification.

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Table 5
Additions Due to EPA Primacy
Department of Health
1991 and 1993 Biennia

	- - - 1991 Biennium - - -			- - - 1993 Biennium - - -		
	FTE*	State Funds	Federal Funds	FTE+	State Funds	Federal Funds
Public Health Laboratory	1.0	\$34,839	\$ 0	1.0	\$ 84,423	\$ 0
Environmental Sciences Div.						
Air Quality	6.0	0	568,424	6.5	590,398	0
Superfund	5.0**			4.0	0	0
Hazardous Waste	3.0***		130,815	4.0	89,069	267,207
Solid Waste/Landfill				3.0	256,417	0
Public Water Supply	2.0		141,150	8.0	493,844	1,481,533
Total	17.0	\$34,839	\$840,389	26.5	\$1,514,151	\$1,748,740

* Annualized FTE.

** Operational plan change in the 1991 biennium. The increase in FTE and related funding is included in the base budget in the 1993 biennium.

***Operational plan added 1.0 FTE.

+ FTE added each year of the 1993 biennium.

Vacant Positions

In fiscal 1990, environmental programs and the Licensing, Certification, and Construction Bureau experienced vacancies and turnover in certain key staffing areas such as environmental specialists and facility surveyors. In recognition of the issue of state primacy over federal environmental statutes and regulations because several of these programs are mandated in state and/or federal law, all authorized positions in the environmental programs are fully funded in the LFA current level in the 1993 biennium despite current vacancies.

Because certification is necessary before any facility can receive federal medicaid or medicare payments and because certification must be performed in a timely manner, staff in the Licensing, Certification, and Construction Bureau is also fully funded in current level. Operating expenses are increased above fiscal 1990 expenditure levels to reflect full staffing. The program narratives discuss the financial impact of full staffing.

The Executive Budget includes the budget modifications listed below. These modifications are discussed in the program narratives.

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Executive Budget Modifications

1993 Biennium

<u>Budget Modifications</u>	<u>FTE FY92</u>	<u>FTE FY93</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
1) Personnel Specialist*	1.0	1.0		\$ 53,165	\$ 53,165
2) Legal Services Charge System			\$165,794		165,794
3) Support Staff*	2.0	2.0	15,000	97,683	112,683
4) Newborn PKU Screening	1.0	1.0		109,245	109,245
5) Safe Drinking Water	1.0	1.0		84,423	84,423
6) Asbestos Control	1.0	1.0		187,777	187,777
7) Air Quality*	6.5	6.5		590,398	590,398
8) Hazardous Waste*	4.0	4.0		356,276	356,276
9) Landfill Management*	3.0	3.0		256,417	256,417
10) BN/ARCO Special Projects*	5.0	5.0		587,106	587,106
11) Petro Board Admin*	12.0	12.0		905,268	905,268
12) Groundwater Pollution*	2.0	2.0		204,846	204,846
13) Safe Drinking Water*	8.0	8.0		1,975,377	1,975,377
14) Non-Point Source Pollution*	2.0	2.0		2,828,121	2,828,121
15) Child Nutrition				4,276,000	4,276,000
16) WIC Program				964,644	964,644
17) Chronic Disease Prevention	0.5	0.5		81,000	81,000
18) Community-Based TB Care			150,000		150,000
19) Sexually Transmitted Disease	1.5	1.5		109,624	109,624
20) Federal Nursing Home Reform	<u>15.0</u>	<u>15.0</u>	<u>118,431</u>	<u>1,588,046</u>	<u>1,706,477</u>
Total	65.5	65.5	\$449,225	\$15,255,416	\$15,704,641

*Included in the proposed Department of Natural Resources and the Environment.

DIRECTOR'S OFFICE

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	11.00	10.00	12.00	12.00	2.00
Personal Services	393,560	394,345	457,677	457,038	16.09%
Operating Expenses	105,544	476,589	116,193	116,374	-60.05%
Equipment	<u>1,250</u>	<u>368</u>	<u>0</u>	<u>0</u>	<u>-100.00%</u>
Total Program	\$500,354	\$871,302	\$571,063	\$570,603	-16.77%
<u>Fund Sources</u>					
General Fund	213,500	217,450	101,989	101,801	-52.71%
State Revenue Fund	5,697	401,440	0	0	-100.00%
Federal Revenue Fund	55,370	0	70,094	69,927	152.88%
Proprietary Fund	<u>225,787</u>	<u>252,412</u>	<u>398,980</u>	<u>398,875</u>	<u>66.85%</u>
Total Funds	\$500,354	\$871,302	\$571,063	\$570,603	-16.77%

Program Description

The Director's Office provides for the overall management and policy development of the department. Included in this program are: 1) the Director, which includes the deputy director and personnel unit; 2) the Board of Environmental Sciences, which is a quasi-judicial board appointed by the Governor to advise the department in public health matters; 3) Legal Unit, which provides legal representation for the department in addition to enforcing several federal statutes, such as the Federal Clean Air Act, the Resource and Recovery Act, the Clean Water Act, and respective implementing regulations; and 4) Medical/Dental Unit, which provides education and preventive services to improve the oral and physical health of Montanans.

Current Level Budget

The program's current level budget for the 1993 biennium is 16.8 percent less than the current biennium because \$400,000 per year appropriated to the program for civil actions involving environmental damage in the Clark Fork River Basin and in Livingston were transferred to other programs. The current level budget is 14.1 percent higher than the program's fiscal 1990

expenditure level, due mainly to personal services cost increases.

The number of FTE in the program increase 2.0 from fiscal 1991 because: 1) as part of its reorganization in the 1991 biennium, the department transferred the Dental Unit (including 1.0 FTE dentist) from the Medical Services and Health Facilities Division to the Director's Office; and 2) 1.0 FTE legal support staff was transferred from the Air Quality and Solid and Hazardous Waste Bureaus to the Legal Unit. Personal services increase 16.09 percent due to these transfers, vacancy savings realized in fiscal 1990, and the continuation of the fiscal 1991 pay plan increase in the 1993 biennium. The department is proposing that a position scheduled for elimination in the Health Planning Bureau due to the sunset of certificate of need law be transferred to the Director's Office to become the medical advisor to the department. Because this position is scheduled to end, it is not included in current level.

Operating expenses decrease 60 percent due to the transfer of \$400,000 per year appropriated to continue civil action relating to the Burlington Northern Railroad and the Glacier Park Company and the Clark Fork River Basin to the Solid and Hazardous Waste and Water Quality Bureaus.

DIRECTOR'S OFFICE

The following table shows each component of the Director's Office and its related funding.

Table 6
Director's Office
Fiscal 1990, 1993 Biennium

	<u>Fiscal 1990</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
Director			
General Fund	\$ 66,705	\$ 70,951	\$ 70,783
Indirect Assessments	225,787	236,751	236,817
Board of Health			
General Fund	5,369	10,231	10,231
Legal Unit			
Assessments*	127,741	162,229	162,058
Dental/Medical			
General Fund	13,685	20,807	20,787
MCH Block Grant	<u>55,370</u>	<u>70,094</u>	<u>69,927</u>
Total	\$494,657**	\$571,063	\$570,771

* General fund in fiscal 1990.

**Main table includes additional one-time expenditures.

General fund in the Director component supports the director's salary and related indirects. The Legal Unit is currently funded with general fund, with any charges collected interdepartmental for legal work deposited to the general fund. Due to the lack of charges deposited, the 1989 legislature specified that the Legal Unit must be funded from charges to the programs using the legal services beginning in the 1993 biennium. As a result, the proprietary income in the current level budget increases 152.9 percent. (See "Legal Services Charge System" modification.) The Dental/Medical Unit is funded from the maternal and child health block grant, with general fund supporting a portion of the dentist's salary and supplies related to services provided to the geriatric population. State special revenue consisted of RIT funds for the BN and Clark Fork civil action and fees used to pay for a portion of the Legal Unit's legal data base.

Executive Budget Modifications

Personnel Specialist

The department is requesting \$53,165 during the biennium to continue a 1.0 FTE personnel specialist added via budget amendment in fiscal 1990. The position would assist in handling increased workload resulting from program expansion and staff turnover. The FTE, which would be funded with proposed solid waste management and air quality fees and the environmental quality protection fund, would assist in personnel matters and serve as payroll backup. In the Executive Budget, this position is added in the proposed Department of Natural Resources and the Environment.

Legal Services Charge System

Beginning in the 1993 biennium, the Legal Unit is to be funded from charges made to the programs using its services. The Executive Budget requests \$82,897 of general fund in each year of the

DIRECTOR'S OFFICE

biennium as a contingency to pay for
legal service costs charged to agency

programs supported by the general fund.

CENTRAL SERVICES

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	60.50	60.50	60.50	60.50	.00
Personal Services	1,449,092	1,613,735	1,594,347	1,594,090	4.10%
Operating Expenses	703,833	738,680	711,782	706,386	-1.69%
Equipment	244,947	1,927	0	0	-100.00%
Total Program	\$2,397,872	\$2,354,342	\$2,300,909	\$2,295,268	-3.28%
Fund Sources					
General Fund	598,318	668,329	636,226	635,162	.37%
State Revenue Fund	932,017	793,684	793,810	787,748	-8.35%
Federal Revenue Fund	161,643	171,905	170,237	170,182	2.06%
Proprietary Fund	705,894	720,424	700,636	702,176	-1.65%
Total Funds	\$2,397,872	\$2,354,342	\$2,300,909	\$2,295,268	-3.28%

Program Description

The Centralized Services Division provides support services for the department in the areas of financial reporting, budgeting, accounting, grants and contracts management, statistical services, record keeping, laboratory services, and other support activities as required to promote and protect the health and safety of Montana citizens. The Centralized Services Division consists of four bureaus: Support Services, Vital Records and Statistics, Chemistry Laboratory, and the Public Health Laboratory.

Current Level Budget

The division's 1993 biennium current level is 3.3 percent less than the 1991 biennium due mainly to a large one-time equipment purchase. The division purchased a van, \$220,693 in laboratory equipment, and \$11,675 in computer equipment in fiscal 1990.

Personal services increase 4.1 percent due to vacancy savings in fiscal 1990 and the fiscal 1991 pay plan increase which is continued into the 1993 biennium. Operating expenses decline by 1.7 percent from the current biennium as a net result of: 1) Department of Administration insurance costs decrease by \$24,309 in fiscal 1992 and \$22,689 in fiscal 1993 from the fiscal 1990 level; 2) \$31,593 of a biennial appropriation of \$44,274 for audit costs was expended in fiscal 1990, while audit costs are \$24,274 each year of the 1993 biennium; 3) printing costs are reduced by \$8,000 in fiscal 1993 in the Records and Statistics Bureau due to biennial printing requirements; 4) maintenance contracts of \$13,901 are added in the Chemistry Laboratory Bureau for equipment purchased in fiscal 1990; 5) inflationary adjustments add \$9,651 in fiscal 1992 and \$9,665 in fiscal 1993; and 6) indirects increase \$8,319 in fiscal 1992 and \$8,316 in fiscal 1993.

The following table shows each component of the division and its funding sources.

CENTRAL SERVICES

Table 7
Central Services Funding
Fiscal 1990, 1993 Biennium

	<u>Fiscal 1990</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
Division Administration			
Indirect Assessments	\$ 171,018	\$ 156,816	\$ 158,904
Support Services			
Film Library Fees	17,627	15,610	15,610
Indirect Assessments	534,876	543,820	543,272
Records and Statistics			
General Fund	256,722	288,724	286,908
Vital Statistics (State Special)	99,638	110,000	102,000
Federal Contracts	94,900	103,237	103,182
Chemistry Laboratory			
General Fund	88,277	100,500	100,985
Laboratory Income	451,478	242,840	243,800
Public Health Laboratory			
General Fund	253,319	247,002	247,269
Laboratory Income	363,274	425,360	426,338
Preventive Health Block Grant	<u>66,743</u>	<u>67,000</u>	<u>67,000</u>
Total	\$2,397,872	\$2,300,909	\$2,295,268

In the Records and Statistics Bureau, the vital statistics state special revenue account receives income from the sale of birth and death certificates and federal funds are received from the National Center for Health Statistics and the National Death Index from contracts for providing Montana's statistics. The Chemistry Laboratory is funded two-thirds with laboratory income, with the remaining one-third general fund for those services for which no charge can be made. In fiscal 1990, laboratory income was also used to purchase equipment in the Chemistry Laboratory. Within the Public Health Laboratory (formerly the microbiology laboratory), PKU testing is self-supported with fee income and preventive health block grant funds are added for those services provided for the indigent

population. The remainder of the bureau is funded 50 percent with general fund and 50 percent with laboratory fee income. For a further discussion of laboratory income, see the issue below.

Issues

Laboratory Income

The Public Health and Chemistry Laboratories are both partially funded with fees collected for tests performed. The following table shows revenues to and expenditures from the laboratory income account since fiscal 1988. Fiscal 1991 expenditures and revenue are the appropriated amount. Fiscal 1992 and 1993 expenditures are those in LFA current level. Revenue in the 1993 biennium is assumed at the fiscal 1990 level.

CENTRAL SERVICES

Table 8
Laboratory Income and Disbursements
Fiscal 1988 - 1993

	Fiscal 1988	Fiscal 1989	Fiscal 1990	Fiscal 1991*	Fiscal 1992	Fiscal 1993
Beginning Balance	\$353,554	\$333,904	\$363,924	\$124,185	\$124,185	\$ 21,800
Revenues	<u>502,083</u>	<u>515,821</u>	<u>565,818</u>	<u>637,576</u>	<u>565,815</u>	<u>565,815</u>
Total Available	<u>\$855,637</u>	<u>\$849,725</u>	<u>\$929,742</u>	<u>\$761,761</u>	<u>\$690,000</u>	<u>\$587,615</u>
Disbursements						
Public Health Lab	\$130,067	\$123,794	\$281,712		\$327,847	\$328,165
Chemistry Lab	177,656	183,173	205,979		214,901	215,870
PKU Testing	89,980	83,567	81,502		97,513	98,173
Add'l Water Tests			245,559		27,939	27,930
PH Lab Equipment	15,263	40,230				
Chlamydia BA**	10,103	30,472				
Chemistry Lab Equip.	78,815	4,082				
Lab Contingency	<u>22,320</u>	<u>23,268</u>				
Total Disbursements	<u>\$524,204</u>	<u>\$488,586</u>	<u>\$814,752</u>	<u>\$637,576</u>	<u>\$668,200</u>	<u>\$670,138</u>
Net Operations	\$331,433	\$361,139	\$114,990	\$124,185	\$ 21,800	\$(82,523)
Adjustments	<u>2,471</u>	<u>2,785</u>	<u>9,195</u>			
Ending Fund Balance	<u>\$333,904</u>	<u>\$363,924</u>	<u>\$124,185</u>	<u>\$124,185</u>	<u>\$ 21,800</u>	<u>\$(82,523)</u>

* Income is assumed to equal the appropriated disbursements.
Includes \$50,000 laboratory contingency.

**Included in Public Health Laboratory expenses fiscal 1990 through fiscal 1993.

As shown, if revenues remain at the fiscal 1990 level in the 1993 biennium, the account will not be sufficient to maintain current level services. This imbalance between revenue and expenditures is caused by two factors: 1) fees are not covering the total cost of providing the service; and/or 2) services for which the laboratories cannot charge a fee are assuming a greater share of resources.

DHES has indicated that it will be reevaluating its fee structure in fiscal 1991 and will adjust its fees in fiscal 1992 to reflect increases in laboratory costs. In order to maintain current level, fees and/or volume of tests would have to increase approximately 18 percent. The LFA current level budget

assumes revenue from fees will increase by that amount.

The Executive Budget includes the addition of \$120,479 in fiscal 1992 and \$73,189 in fiscal 1993 for additional ongoing staff, funded with fee income. If income is to be sufficient to fund these additional ongoing costs, fees and/or volume would have to increase 36 percent. The Executive Budget also includes \$32,000 (funded with fee income) in fiscal 1992 to purchase equipment. The current fund balance is sufficient to fund this purchase.

Vital Statistics Funds

The 1989 legislature added 1.0 FTE to the Records and Statistics Bureau due to the increased volume of birth and death

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certificates and federal requirements. The position was to be funded with vital statistics income. However, income declined from \$106,930 in fiscal 1988 to \$97,756 in fiscal 1990. Consequently, the bureau kept a position vacant from February 1990 to November 1990 to generate vacancy savings. Current level assumes sufficient vital statistics income to fully fund the position. However, should income prove insufficient to fully fund the position in fiscal 1992, the legislature may wish to require that the position be eliminated.

Executive Budget Modifications

Support Staff

This modification adds \$97,683 during the biennium to maintain 2.0 FTE and related operating expenses added via budget amendment in fiscal 1990. The positions are requested due to increased workload associated with federal reporting and accounting requirements and would be funded by various environmental program state special revenue. The modification also includes \$15,000 of general fund in fiscal 1992 for one-time moving expenses. The positions would be in addition to the 2.0 FTE added to the Support Services Bureau by the 1989 legislature for this purpose. The Executive Budget adds these positions in the proposed Department of Natural Resources and the Environment.

Newborn PKU Screening

The Executive Budget includes 1.0 FTE in the Chemistry Laboratory Bureau to perform repeat testing in the Newborn PKU Testing program to assure that quality assurance standards necessary for receipt of the maternal and child health block grant are met. The biennial cost of the modification is \$109,245 to fund a microbiologist position and related expenses including laboratory operations, supplies and materials, communications, indirect costs, and equipment. The modification would be funded with fees charged for the testing.

Safe Drinking Water

The Executive Budget includes \$84,423 for the biennium to continue funding 1.0 FTE and related laboratory expenses added through budget amendment in fiscal 1991 for the Safe Drinking Water laboratory certification program. This FTE, which the department says is needed to handle changes in federal regulations and additional federal testing requirements, would be funded with fees charged for laboratory testing. The 1989 legislature added 1.0 FTE to the chemistry laboratory due to additional water testing requirements.

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<u>Budget Item</u>	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	34.53	34.53	34.03	34.03	-.50
Personal Services	1,027,746	1,174,194	1,152,010	1,150,942	4.59%
Operating Expenses	499,573	509,587	572,993	573,357	13.59%
Equipment	39,689	26,300	26,117	26,117	-20.85%
Grants	<u>298,660</u>	<u>336,086</u>	<u>340,086</u>	<u>340,086</u>	<u>7.16%</u>
Total Program	\$1,865,668	\$2,046,167	\$2,091,206	\$2,090,502	6.90%
<u>Fund Sources</u>					
General Fund	866,534	984,239	971,554	971,486	4.99%
State Revenue Fund	339,150	381,056	419,543	419,449	16.49%
Federal Revenue Fund	<u>659,984</u>	<u>680,872</u>	<u>700,109</u>	<u>699,567</u>	<u>4.39%</u>
Total Funds	\$1,865,668	\$2,046,167	\$2,091,206	\$2,090,502	6.90%

Division Description

The Environmental Sciences Division includes the environmental programs in Division Administration, the Air Quality Bureau, the Food and Consumer Safety Bureau, and the Occupational Health Bureau. The Environmental Sciences Division Administration oversees various programs in the Environmental Sciences Division, the Solid and Hazardous Waste Bureau, and the Water Quality Bureau. The Air Quality Bureau is responsible for maintaining outdoor air quality levels considered safe to the public health and welfare through permit review, inspections, monitoring, and information dissemination. The Occupational Health Bureau is responsible for administering the Radiological Health program, with primary emphasis on inspection of x-ray machines; the regulation of asbestos consultants, contractors, and workers; and provision of measurement and technical expertise to ensure safety in homes and work places. The Food and Consumer Safety Bureau is responsible for ensuring healthful conditions exist and are maintained in food serving and processing establishments, hotels, motels, and trailer parks and for providing training and support services to local health agencies and sanitarians.

Current Level Budget

This division's current level increases by 6.9 percent as a result of increased personal services, operating expenses, and grants.

The number of FTE decrease by 0.5 due to the transfer of legal support staff to the Legal Unit. Despite this transfer, personal services increase 4.6 percent due to high vacancy savings experienced in fiscal 1990 in several of the programs and continuation of the fiscal 1991 pay plan increase in the 1993 biennium. Because of the issue of primacy in the Air Quality Bureau and because other programs are mandated by state statute and/or the federal government, the current level budget includes full funding for all authorized positions in the 1993 biennium, including the Asbestos program, which experienced significant vacancy savings in fiscal 1990 due to recruitment and retention difficulties. The position is currently vacant.

Operating expenses increase 13.6 percent because: 1) contracted services increase \$12,383 in the Air Quality Bureau for ongoing field monitoring expenses; 2) travel is increased by \$2,618 in the Occupational Health Bureau, \$4,082 in the Food and Consumer Safety Bureau, and \$2,838 in the Asbestos program to continue the fiscal

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1990 appropriated level, which was not maintained due to vacancies; 3) supplies are reduced by \$6,984 in the Occupational Health Bureau and by \$5,325 in the Food and Consumer Safety Bureau, as one-time automation expenditures were made in the base year; 4) one-time legal fees of \$2,374 were eliminated in the Asbestos program; and 5) \$48,950 in spending authority was added each year for variance reviews and environmental impact statements. The division expended \$1,050 in fiscal 1990 for EIS/variance, while current level maintains the 1991 biennium appropriated level of \$50,000 per year. Equipment

includes field monitoring equipment in the Air Quality Bureau.

Air quality grants are made to counties with qualified personnel to monitor local air quality. Food and consumer safety grants are made to local entities to defray their inspection costs. Food purveyors, campgrounds, and hotels/motels pay a \$30 inspection fee, of which 85 percent is deposited to the local board inspection account, with the remainder deposited to the general fund. These grants are included at the level of anticipated income to the account.

Table 9 details current level grants.

Table 9
Environmental Sciences Division Grants
Fiscal 1990, 1993 Biennium

	<u>Fiscal 1990</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
Air Quality	\$102,586	\$102,586	\$102,586
Food and Consumer Safety	<u>196,074</u>	<u>237,500</u>	<u>237,500</u>
Total	\$298,660	\$340,086	\$340,086

Table 10 shows each program within the Environmental Services Division and its related funding.

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Table 10
Environmental Sciences Division
Fiscal 1990, 1993 Biennium

	<u>Fiscal 1990</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
Division Administration			
General Fund	\$ 73,126	\$ 74,433	\$ 74,337
RIT	62,017	74,434	74,337
Air Quality			
General Fund	318,236	356,837	356,837
State Lands	41,333	42,601	42,502
Smoke Management (State)	18,496	-0-	-0-
Federal 105 Grant	618,651	657,508	657,065
Occupational Health			
General Fund	162,439	183,409	183,565
EIS Variance			
Variance Review	1,050	50,000	50,000
Food and Consumer Safety			
General Fund	312,733	356,875	356,747
Local Board Insp.	196,075	237,500	237,500
Asbestos Program			
RIT	<u>61,512</u>	<u>57,609</u>	<u>57,612</u>
Total	\$1,865,668	\$2,091,206	\$2,090,502

General fund in the Air Quality Bureau is the required maintenance of effort for the receipt of federal 105 funds (which must be at least the level expended during the previous year). The general fund amount in the current level budget is equal to the fiscal 1991 appropriated level. The legislature may wish to specify that the general fund appropriation will be reduced and the federal 105 appropriation increased if actual fiscal 1991 expenditures are less than the appropriated level. Income from the Department of State Lands is used to support 1.0 FTE involved in monitoring air quality near mining sites. The smoke management funds were contributions from public agencies and industry for permits to control smoke from open burnings to support on-going smoke control activities in the bureau. Since these funds were authorized by a statute that will expire at the end of fiscal 1991, and the funds are not continued in the 1993 biennium Executive Budget, the activity is funded with federal 105 funds. The executive plans

to seek an alternative funding source for this activity for the 1993 biennium. Variance review fees are reimbursements for the cost of performing variance reviews and environmental impact statements.

The Food and Consumer Safety Bureau's operating costs are completely supported with general fund. Local board inspection fees are passed through to local entities to defray their inspection costs. The Asbestos program is supported with RIT funds. Any income collected through civil penalties and project permits is deposited to the RIT account. In fiscal 1990, \$82,174 was collected.

Executive Budget Modifications

Air Quality

The Executive Budget includes \$590,398 for the biennium for 6.5 FTE and related operating expenses to: 1) implement new

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EPA-mandated responsibilities for the Montana Air Quality program; and 2) provide additional support for county air quality programs in western Montana. Federal regulations increasing the state's responsibility provide for the collection of permit fees from air pollution sources, which are earmarked to the states to defray their additional costs. This modification would be funded through these fees. If the state does not collect the fees, they can be collected and retained by the federal government. This modification is included in the proposed Department of Natural Resources and the Environment.

Asbestos Control

The Executive Budget includes \$187,777 over the biennium for 1.0 FTE and related operating expenses to continue a fiscal 1991 budget amendment that provided funds for an increased workload in the Asbestos Control program. Funding would be provided by fees collected for asbestos permits. The Asbestos Control program is required by EPA.

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Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	52.00	53.00	51.00	51.00	-2.00
Personal Services	1,195,869	1,514,692	1,514,520	1,513,028	11.69%
Operating Expenses	2,214,868	7,196,408	2,328,175	2,331,009	-50.49%
Equipment	49,759	75,585	50,048	51,085	-19.32%
Grants	<u>783,099</u>	<u>1,087,142</u>	<u>1,069,004</u>	<u>1,069,004</u>	<u>14.32%</u>
Total Program	\$4,243,595	\$9,873,827	\$4,961,634	\$4,964,009	-29.69%
Fund Sources					
General Fund	147,209	195,269	184,641	184,705	7.85%
State Revenue Fund	1,750,377	2,175,414	2,101,966	2,104,481	7.15%
Federal Revenue Fund	<u>2,346,009</u>	<u>7,503,144</u>	<u>2,675,027</u>	<u>2,674,823</u>	<u>-45.68%</u>
Total Funds	\$4,243,595	\$9,873,827	\$4,961,634	\$4,964,009	-29.69%

Program Description

The Solid and Hazardous Waste Bureau administers six environmental health laws designed to protect public health and the environment: 1) the Solid Waste Management Act, which provides for licensing, technical assistance, inspection, and enforcement for municipal, county, and private solid waste management systems throughout the state; 2) the Motor Vehicle Recycling and Disposal Act, which is a regulatory program that controls the disposal of junk motor vehicles and shielding of disposal sites; 3) the Montana Hazardous Waste Act, which is a regulatory program that controls generation, transport, treatment, storage, and disposal of hazardous wastes; 4) the Underground Storage Tank Act, which is modeled after federal law and provides for prevention of leaks in underground storage tanks; 5) the Superfund Act, which allows the department to investigate potentially hazardous disposal sites to determine if past disposal practices are resulting in threats to public health or the environment; and 6) the Comprehensive Environmental Clean-up and Responsibility Act (also known as the State Superfund Act) which allows the department to investigate and clean up all hazardous waste sites in Montana that are not on the federal Superfund National Priority List. Administration of these laws involves coordination with

local governments, state and federal agencies, and the general public in order to protect the soil, water, and air from contamination.

Current Level Budget

This bureau's current level budget for the 1993 biennium is 16.9 percent higher than actual fiscal 1990 expenditures, but significantly less than fiscal 1991 appropriated levels. This is due to two major program issues: 1) the Burlington Northern and Livingston environmental clean-up efforts, which were funded with RIT funds and totaled \$297,661 in fiscal 1990, are removed from the current level at the request of the agency and presented as a budget modification; and 2) the State Superfund and Federal Superfund programs are continued at fiscal 1990 levels. In fiscal 1990, the bureau spent approximately \$4.8 million less than appropriated for these programs because the level of remedial activity was less than anticipated.

The number of FTE is reduced by 2.0 as a net result of two factors: 1) 0.50 FTE was transferred from the Junk Vehicle, Hazardous Waste, and Solid Waste/Landfill programs to the Legal Unit; and 2) 1.50 FTE added for landfill review of out-of-state refuse dumping in Montana was eliminated. The 1989 legislature authorized this 1.5 FTE and related expenses funded with fees to be

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collected from the reviews. Due to the moratorium on out-of-state solid waste importation, no expenditures for this program were made and no fees were collected. No expenditures or FTE were included in the 1993 biennium current level budget for this activity, pending further state action on the moratorium. If the moratorium is lifted, the legislature may want to consider appropriating funds for this program.

This bureau experienced considerable vacancy savings in fiscal 1990, particularly in the Hazardous Waste, Underground Storage Tank, and Solid Waste programs due to difficulties in recruiting and retaining staff. As stated earlier, the LFA current level budget includes full staffing of all positions due to issues of state primacy in Environmental Protection Agency programs and federal regulations, even though the bureau may continue to experience high vacancies. As a result of full funding for authorized staff and continuation of the fiscal 1991 pay plan increase in the 1993 biennium, personal services increase 11.7 percent compared to the 1991 biennium.

Operating expenses increase 5 percent over the fiscal 1990 level as a net result of: 1) \$53,585 was added each year to fund the Hazardous Waste, Underground Storage Tanks, and Solid Waste/Landfill programs at the appropriated fiscal 1990 level to reflect the assumption of full staffing;

2) \$212,737 was added each year to the Leaking Underground Storage Tank (LUST) program to fund the program at the fiscal 1990 appropriated level on the assumption of full staffing. The fiscal 1990 contingency funds for emergencies involving leaking underground storage tanks is continued at the appropriated level on the assumption that more staff will be able to investigate and subsequently discover more leaking tanks; 3) \$40,000 was added to the State Superfund program each year to reflect an increase in the fiscal 1991 appropriation over the appropriated fiscal 1990 level made by the 1989 legislature; 4) \$30,000 was added each year to the Junk Vehicle program as a contingency should the price of steel fall; 5) a total of \$265,575 expended on the ARCO and Burlington Northern civil action was removed, as the Executive Budget includes a change in funding source; and 6) fully staffing the bureau adds indirects of \$32,918 in fiscal 1992 and \$32,716 in fiscal 1993 over the fiscal 1990 level.

Equipment includes various office and field equipment in the Underground Storage Tank, Hazardous Waste, Superfund, Leaking Underground Storage Tank, and Superfund Core programs.

The following table provides details on the grants included in the bureau's programs.

Table 11
Solid and Hazardous Waste Bureau Grants
Fiscal 1990, 1993 Biennium

	<u>Fiscal 1990</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
Junk Vehicle	\$783,099	\$ 800,000	\$ 800,000
UST	0	262,604	262,604
Tank Installers	0	6,400	6,400
Total	\$783,099	\$1,069,004	\$1,069,004

Junk vehicle grants are made to counties to reimburse them for the cost of county vehicle graveyard upkeep. Underground

storage tank grants, which are included at the requested level, are made to local entities to defray their costs of

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underground storage tank activities. While the grants are required by statute, no grants were awarded in fiscal 1990 pending legal review. Tank

installers grants are made to reimburse local officials for tank inspections.

The following table shows each program within the bureau and its funding.

Table 12
Solid and Hazardous Waste Bureau Funding
Fiscal 1990, 1993 Biennium

	<u>FY 90</u>	<u>FY 92</u>	<u>FY 93</u>	<u>Match/ Maintenance of Effort</u>
Junk Vehicle				
Junk Vehicle	\$ 913,436	\$1,012,922	\$1,013,054	None
Superfund				
Federal Superfund	1,240,715	1,256,358	1,257,031	*
Hazardous Waste				
RIT	106,911	133,571	133,485	
Federal HW	320,749	400,713	400,455	25%/75%
UST				
Leak Prevent	185,095	551,037	553,726	
RIT	42,614	55,923	55,692	
Federal EPA	127,839	167,770	167,075	25%/75%
Solid Waste				
General Fund	147,209	184,641	184,705	
State Superfund				
RIT	187,755	229,048	229,050	
LUST				
RIT	0	72,024	72,004	
LUST Trust	470,998	648,212	648,032	10%/90%**
Landfill Rev.				
Fees	0	0	0	
ARCO				
RIT	132,214	0	0	
BN				
RIT	165,450	0	0	
Superfund Core				
RIT	9,755	22,441	22,470	
Federal Superfund	185,355	201,974	202,230	10%/90%***
Tank Installers				
Permits	7,147	25,000	25,000	
Adjustment	<u>353</u>			
Total	\$4,243,595	\$4,961,634	\$4,964,009	

* Depends upon the stage of work. State match is added as required.

** Required no match in the 1991 biennium.

***Required 5 percent match in 1991 biennium.

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Junk vehicle funds are derived from junk vehicle fees, the sale of junk vehicles, and wrecking facility licenses. Leak prevention income is derived from tank licenses and permits, notification fees, and recovered damages and costs. The department collected \$473,927 of fees and permits income in fiscal 1990, with \$36,726 collected through October 1990.

Executive Budget Modifications

Hazardous Waste

The Executive Budget includes \$356,276 for the biennium to support 4.0 FTE and related operating expenses to implement changes in the Montana Hazardous Waste Program. These changes must be made to conform to recent amendments to the federal Resource Conservation and Recovery Act. The modification would be funded 75 percent from federal hazardous waste funds, with the 25 percent required state match funded with state Resource Indemnity Trust (RIT) funds.

Landfill Management

The Executive Budget includes \$256,417 for the biennium to add 3.0 FTE and related operating expenses for: 1) implementing additional waste disposal

regulations; and 2) responding to requests for technical assistance resulting from changes in federal waste management laws. The Executive Budget proposes that this modification be funded from new fees imposed on landfill operators.

BN/ARCO Special Projects

This modification adds \$587,106 over the biennium to continue funding 5.0 FTE and related expenses associated with Superfund clean-up activities at the Burlington Northern (BN) rail yard in Livingston and at the Atlantic Richfield Company (ARCO) national priority list clean-up sites in the Clark Fork River Basin. The agency plans to have BN and ARCO pay the entire cost of this modification through deposits into a state special revenue fund.

Petro Board

The Executive Budget is requesting that all administrative expenses of the Petro Board established in House Bill 603 by the 1989 legislature be appropriated in the General Appropriation Act. Funds to administer the Petro Board are currently statutorily appropriated. A total of 12.0 FTE and \$905,268 in petroleum tank storage clean-up fees are requested.

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Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	45.25	45.25	44.75	44.75	-.50
Personal Services	1,271,536	1,450,984	1,433,780	1,433,057	5.30%
Operating Expenses	948,682	1,040,806	993,975	995,624	.01%
Equipment	20,072	9,610	5,527	5,527	-62.76%
Grants	80,352	245,970	100,970	100,970	-38.12%
Total Program	\$2,320,642	\$2,747,370	\$2,465,656	\$2,466,579	-2.68%
<u>Fund Sources</u>					
General Fund	126,655	176,341	273,730	273,433	80.58%
State Revenue Fund	462,938	444,138	292,995	293,798	-35.31%
Federal Revenue Fund	1,731,049	2,126,891	1,898,931	1,899,348	-1.55%
Total Funds	\$2,320,642	\$2,747,370	\$2,465,656	\$2,466,579	-2.68%

Program Description

The Water Quality Bureau is responsible for the protection of public health and the environmental quality of Montana's water resources. The program administers the Montana Water Quality Act, Montana's laws regarding public water supply, the Sanitation in Subdivision Act, the Water/Wastewater Operator Certification law, and numerous rules promulgated to implement these laws. The bureau has seven activity units responsible for proper implementation of these statutes and rules: 1) Safe Drinking Water, which provides technical assistance and regulatory surveillance to ensure that water provided to the public meets minimum public health and engineering standards; 2) Water Quality Management, which monitors surface water to determine changes in quality or impacts from suspected pollution sources; 3) Nonpoint Source Pollution, which identifies streams and lakes whose quality is adversely impacted by nonpoint sources of pollution; 4) Water Pollution Control, which investigates alleged violations of Montana water quality laws and undertakes enforcement if appropriate; 5) Water Discharge Permits, which controls the quality of wastes discharged into state waters; 6) Groundwater, which investigates groundwater contamination problems and develops clean-up plans to protect

groundwater resources; and 7) Municipal Wastewater Assistance, which provides technical and financial assistance to municipalities for design, construction, and operation of wastewater treatment systems.

Current Level Budget

The bureau's 1993 biennium current level budget is less than the fiscal 1991 appropriated level but 6.2 percent higher than fiscal 1990 expenditures. The number of FTE decrease because a 0.50 FTE added for training was converted to contract services. The position was to be shared between DHES and Northern Montana College (NMC). NMC plans to fully fund the position, with DHES reimbursing half of the cost. The 5.3 percent increase in personal services is due to vacancy savings in fiscal 1990 and continuation of the fiscal 1991 pay plan increase in the 1993 biennium.

Although operating expenses show virtually no increase over the two biennia, they are 4.8 percent higher than fiscal 1990 actual expenditures due to:

1) full funding of salaries adds indirect costs of \$15,312 in fiscal 1992 and \$15,203 in fiscal 1993 over the fiscal 1990 level;

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2) the Revolving Loan program had no expenditures in fiscal 1990 due to delay of the federal grant. Since this program began operating in fiscal 1991, \$69,508 was included in fiscal 1992 and \$60,507 in fiscal 1993 to fund the program at the fiscal 1991 appropriated level; and

3) \$3,000 in one-time tools and legal fees expenditures were removed from the Water Permits program in accordance with

a reduction in the 1991 appropriation made by the 1989 legislature.

Equipment includes various field and office equipment in the Water Quality Management, Water Permits, Construction Grants, and Public Water Supply programs.

The following table details bureau grants.

Table 13
Water Quality Bureau Grants
Fiscal 1990, 1993 Biennium

	<u>Fiscal 1990</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
Subdivisions	\$28,154	\$ 32,000	\$ 32,000
Construction Grants	22,768	40,000	40,000
Public Water Supply	<u>29,430</u>	<u>28,970</u>	<u>28,970</u>
Total	\$80,352	\$100,970	\$100,970

Subdivisions grants are made to counties for review of subdivisions less than five acres in size. Construction grants are made to communities in advance of receipt of federal grants. Public water supply grants are made to local entities

to collect samples and perform sanitary surveys.

The following table details each program within the bureau and its funding source.

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Table 14
Water Quality Bureau Funding
Fiscal 1990, 1993 Biennium

<u>Program</u>	<u>Fiscal 1990</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>	<u>Match/ Maintenance of Effort</u>
Water Quality Mgmt				
RIT	\$ 73,670	\$ 62,494	\$ 62,865	
State Lands	15,269	19,685	19,727	
Federal 205(j)	194,514	212,882	212,512	None
WPC				
RIT	83,182	85,386	85,386	
Federal 106	306,793	338,660	338,688	1980 Maint. of Effort
Water Permits				
Federal 106	175,516	184,280	184,457	Part of 106 Requirement
Const. Grants				
Federal 205(g)	321,412	377,266	376,949	Part of 106 Requirement
Groundwater				
Federal 106	101,243	113,913	114,041	Part of 106 Requirement
Wastewater				
Operator Fees	38,792	40,167	40,310	
Subdivisions				
General Fund	126,655	149,405	149,285	
Public Water Supply				
RIT	118,970	124,325	124,148	
Fed. Safe Drnk. Wtr.	431,412	432,950	433,595	25%/75%
Revolving Fund				
Federal	0	97,352	97,287	17%/83%*
Training Fac				
Federal 109(b)	19,838	20,882	20,932	None
Clark Fork				
RIT	102,315	104,948	105,237	
Nonpoint Source				
Federal 319(h)	56,666	101,061	101,160	None
Golden Maple Mining				
Federal	5,405	0	0	
Gov. Clark Fork				
RIT	40,604	0	0	
Lake Pend Oreille				
Federal	69,166	0	0	
Special Project				
Federal 205(j)	39,220	0	0	
Total	\$2,320,642	\$2,465,656	\$2,466,579	

*Will be met through other projects.

The Public Water Supply section requires a 25 percent state match for federal funds. A portion of the match is met with Resource Indemnity Trust funds. The remainder of the match is provided through services performed in the

Subdivisions program. Federal 205(j) funds are being phased out by the federal government. However, other federal sources, including 106 funds, will be available in its place. The Wastewater Operators program is funded

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through license fees paid by wastewater operators. The Subdivisions program is 100 percent funded with general fund, with any income derived from fees assessed for subdivision review deposited to the general fund. In fiscal 1990, \$75,790 was deposited in the general fund.

Issue

Use of RIT Funds in the Water Quality Bureau

In the 1991 biennium, state support in the Public Water Supply (Safe Drinking Water), Water Quality Management, and Water Pollution Control programs was changed from general fund to resource indemnity trust (RIT) funds.

By statute, DHES is allocated 12 percent of the interest income from the resource indemnity trust for the following purposes: 1) implementation of the Montana Hazardous Waste Act, including regulation of underground storage tanks and the state match on federal funds; 2) state assistance under CERCLA; 3) administration of the Environmental Sciences Division; 4) remedial Superfund action; 5) maintenance of Superfund sites; 6) underground storage tank match; 7) principal, interest, and premium payment due on Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) bonds; and 8) expenses relating to investigation and remedial action for any defined hazardous substance, including hazardous substances and toxic pollutants designated in the federal Water Pollution Control Act.

The Water Quality Management program is charged with the duty to maintain and enhance the quality of the state's water. This is done through overall management of water programs and the monitoring of water to determine changes in quality or impacts from suspected pollution sources. The Water Pollution Control program is responsible for investigating alleged violations of

Montana's water quality laws and enforcing these laws. According to department staff, a substantial portion of the scope of the programs' responsibilities come under the definition of hazardous substances as defined in the federal water pollution statutes and, therefore, could meet the restrictions on RIT use.

The primary mission of the Public Water Supply Section is to maintain the safety of users of public water supplies by ensuring that water provided and systems used meet minimum health and engineering standards. While in some instances this program deals with the potential presence of hazardous substances in public water supplies, the major portion of the program's workload involves public water supply operator and administrator training, the provision of technical assistance to operators, the review of sewer and water construction projects, the inspection and improvement of public water supplies, and similar duties. These duties do not appear to meet the statutory criteria for use of RIT funds.

Executive Budget Modifications

Groundwater Pollution

The Executive Budget includes \$204,846 for the biennium for 2.0 FTE and related operating expenses to implement new federally mandated groundwater quality protection programs. The new programs (wellhead protection, pesticides in groundwater, and nonpoint pollution control) would be funded with federal water pollution control funds.

Safe Drinking Water

The Executive Budget includes \$1,975,377 for the biennium to add 8.0 FTE and related expenses to implement federally mandated program expansions in the Safe Drinking Water program. The additions would be funded 25 percent from state special revenue funds collected through safe drinking water fees and 75 percent from federal safe drinking water funds.

WATER QUALITY

Nonpoint Source Pollution

This modification adds \$2,828,121 for the biennium to develop and implement a nonpoint source water pollution control program, as required by 1987 amendments to the federal Clean Water Act. The department would add 2.0 FTE and related operating expenses for program administration, with remaining funds of \$1,264,291 in fiscal 1992 and \$1,256,244

in fiscal 1993 passed through to non-profit organizations to implement on-the-ground nonpoint source controls. Funding would be provided by federal nonpoint source water pollution funds. The funds require a 40 percent match which would be met through existing programs funded under the Department of Natural Resources and Conservation's Reclamation and Development Grants program.

HEALTH SERVICES/MEDICAL FACILITIES

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	15.52	15.52	13.02	13.02	-2.50
Personal Services	469,656	525,442	422,764	422,613	-15.05%
Operating Expenses	317,219	345,918	306,365	307,943	-7.36%
Equipment	1,595	4,240	3,481	3,481	19.31%
Total Program	\$788,470	\$875,600	\$732,610	\$734,037	-11.86%
<u>Fund Sources</u>					
General Fund	541,619	605,982	474,663	474,613	-17.28%
State Revenue Fund	39,079	44,702	46,320	46,341	10.60%
Federal Revenue Fund	207,772	224,916	211,627	213,083	-1.84%
Total Funds	\$788,470	\$875,600	\$732,610	\$734,037	-11.86%

Division Description

The Health Services/Medical Facilities Division is responsible for improving and preserving the health and lives of Montana residents. This program consists of three functional units: 1) Division Administration, which is responsible for overall division operations, management of division resources, and assistance with formulation and development of department policy; 2) the Emergency Medical Services Bureau, which is responsible for planning and implementation of a statewide emergency medical services system and managing the Montana Poison Control System; and 3) the Health Planning Bureau, which produces the state health plans and planning research, administers the Certificate of Need program, and collects, maintains, and distributes health facility data.

Current Level Budget

The division's current level budget for the 1993 biennium is less than actual fiscal 1990 expenditures due to the "sunset" of portions of the certificate of need (CON) law on June 30, 1991. The

FTE level in the Health Planning Bureau is decreased 2.5 as a result, reducing personal services by \$80,000 each year. Personal services are also reduced due to turnover in veteran staff in division administration, for whom there was a significant termination payout in fiscal 1990. New staff have lower step requirements, furthering reducing costs. However, these reductions are offset by vacancy savings experienced in fiscal 1990 and continuation of the fiscal 1991 pay plan increase in the 1993 biennium. Operating expenses decrease 7.4 percent due to the net effect of: 1) reductions of \$10,472 per year in the Health Planning Bureau due to the lower CON requirements; 2) a reduction of \$13,000 in one-time supply costs in the Emergency Medical Services Bureau; and 3) an increase of \$1,900 to fully fund the Montana Poison Control contract in the Emergency Medical Services program. Equipment is included for the Emergency Medical Services Bureau at the average of the previous three years' equipment purchases.

Table 15 details the funding of the functions of the Health Services Division.

HEALTH SERVICES/MEDICAL FACILITIES

Table 15
Health Services Division Funding
Fiscal 1990, 1993 Biennium

	<u>Fiscal 1990</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
Division Administration			
General Fund	\$ 76,100	\$ 69,216	\$ 69,096
MCH Block*	28,340	29,932	29,879
Preventive Health	12,633	13,404	13,380
Emergency Medical Services			
General Fund	300,347	312,039	312,257
Certification	39,079	46,320	46,341
Preventive Health Block	166,799	168,291	169,824
Health Planning			
General Fund	<u>165,172</u>	<u>93,408</u>	<u>93,260</u>
Total	\$788,470	\$732,610	\$734,037

*Total grant must be matched on a ratio of 3/7 state dollars to 4/7 federal dollars.

Certification state special revenue, which is derived from certification fees and the sale of supplies and materials,

supports a portion of emergency medical technician (EMT) functions such as training, examination, and certification.

FAMILY/MATERNAL & CHILD HEALTH BUREAU

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	26.50	25.50	24.50	24.50	-1.00
Personal Services	684,813	731,299	700,090	699,303	-1.18%
Operating Expenses	1,264,538	1,284,129	1,256,690	1,289,441	-.10%
Equipment	0	2,558	0	0	-100.00%
Grants	6,338,478	6,782,144	6,798,918	6,798,918	3.64%
Benefits and Claims	5,443,705	6,029,020	6,022,171	6,019,540	4.96%
Total Program	\$13,731,534	\$14,829,150	\$14,771,105	\$14,800,414	3.54%
<u>Fund Sources</u>					
General Fund	106,704	63,910	101,244	101,164	18.64%
Federal Revenue Fund	13,624,830	14,765,240	14,669,861	14,699,250	3.45%
Total Funds	\$13,731,534	\$14,829,150	\$14,771,105	\$14,800,414	3.54%

Program Description

The Family/Maternal and Child Health Bureau consists of the following programs: 1) Nutritional Services, which provides nutritional foods, education, and assessment to low income pregnant women, infants, and children through the Women, Infants, and Children (WIC) Program, and nutritional meals to children enrolled in participating child care facilities through the Child Nutrition Program; 2) Family Planning, which provides quality comprehensive family planning services to women ages 15-44 who are at risk of unwanted pregnancy; 3) Handicapped Children, which identifies children, age birth to 18, with special health care needs and provides for medical evaluation, treatment, and management of certain specified handicapping conditions; and 4) Perinatal Services, which includes the Montana Initiative for Abatement of Mortality in Infants (MIAMI) Program and improves pregnancy outcome by offering community and hospital-based services to women prior to conception, throughout their pregnancy, and for their infants during the first year of life. This bureau also administers the Maternal and Child Health Block Grant, newborn metabolic screening, and staff development.

Current Level Budget

The department is proposing that the Perinatal and MIAMI programs, including 3.0 FTE, be transferred from the Preventive Health Bureau to the Family/MCH Bureau to create the Perinatal Program. Because expenses of the perinatal and administration functions were commingled in fiscal 1990, the department cannot identify actual expenditures by function. Therefore, the expenditures for the perinatal program are maintained in the Preventive Health Bureau in the 1993 biennium. MIAMI program expenses for fiscal 1990 (\$58,052 in general fund) appear in the fiscal 1990 column in the table above, but not in the fiscal 1991 total. The transfer of MIAMI to this bureau accounts for the increase in general fund in the 1993 biennium.

Two modifications added by the 1989 legislature are not requested in the 1993 biennium: Children with Special Health Care Needs and MCH Staff Development. As a result, personal service costs are reduced by \$36,215 per year and the net result of these transfers and reductions is a 1.0 FTE decrease from the fiscal 1991 appropriation. The MIAMI program FTE is included in the fiscal 1990 totals.

FAMILY/MATERNAL & CHILD HEALTH BUREAU

In the 1991 biennium, the bureau chief was a grade 23 medical doctor. The department is proposing the downgrading of the bureau chief position to a grade 18, saving \$23,900 each year. Current level includes this downgrade.

Although operating expenses show a 0.1 percent decrease, three major adjustments were made: 1) the elimination of the two 1991 biennium budget modifications discussed above re-

duced expenses by \$40,943 per year; 2) the MIAMI project is reduced by \$9,622 to reflect the fiscal 1991 appropriation; and 3) inflation for medical services in the Handicapped Children's Services program adds \$32,900 in fiscal 1992 and \$67,600 in fiscal 1993.

The following table highlights bureau grants and benefits.

Table 16
Family/MCH Bureau Grants
Fiscal 1990, 1993 Biennium

	<u>Fiscal 1990</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
Child Nutrition	\$ 3,610,683	\$ 4,066,687	\$ 4,066,687
Women, Infants and Children*	6,617,005	7,183,633	7,181,002
Family Planning	882,730	881,679	881,679
Grants to Counties	<u>671,765</u>	<u>689,090</u>	<u>689,090</u>
Total Grants	\$11,782,183	\$12,821,089	\$12,818,458

*Includes benefits.

Child nutrition grants are reimbursements from the federal government to qualified daycare providers for the costs of meals served. Women, Infants, and Children (WIC) grants are made to local organizations to administer the program, while benefits are paid to food providers for

the cost of WIC foods purchased. Family planning grants are made to local agencies for family planning activities. Grants to counties are made for services to women and children at risk.

Table 17 details each function of the bureau and its funding.

FAMILY/MATERNAL & CHILD HEALTH BUREAU

Table 17
Family/MCH Bureau Funding

<u>Program</u>	<u>Fiscal 1990</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
Bureau Administration			
MCH Block*	\$ 184,977	\$ 195,809	\$ 195,697
Child Nutrition			
Federal Child Nutrition	3,757,442	4,233,815	4,233,765
Women, Infant, Children			
Federal WIC	7,047,956	7,621,763	7,616,684
Family Planning			
General Fund	48,652	50,000	50,000
Preventive Health Block	202,016	205,000	205,000
MCH Block*	29,000	29,000	29,000
Federal Title X	819,433	822,105	822,131
Handicapped Children			
MCH Block*	835,080	873,279	907,883
Grants to Counties			
MCH Block*	671,765	689,090	689,090
MIAMI			
General Fund	58,052	51,244	51,164
MCH Staff Development			
Federal Funds	37,938	0	0
Children with Special Needs			
Federal Funds	<u>39,223</u>	<u>0</u>	<u>0</u>
Total	\$13,731,534	\$14,771,105	\$14,800,414

*Total grant must be matched 3/7 state dollars to 4/7 federal dollars.

General fund in the Family Planning program supports grants to local family planning organizations. Federal funds provide the rest of the bureau's funding.

Executive Budget Modifications

Child Nutrition

The Executive Budget includes \$1,634,000 in fiscal 1992 and \$2,642,000 in fiscal 1993 of federal funds to provide grants to local food programs for additional

food costs associated with increased numbers of children receiving meals under the Child Nutrition program. These nutritional meals are required by federal law.

WIC Program

This modification adds \$964,644 of federal USDA funds for the biennium for anticipated increased costs of providing food through the WIC program due to more program participants and increased food costs.

PREVENTIVE HEALTH BUREAU

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	21.50	23.50	20.50	20.50	-3.00
Personal Services	567,449	732,360	589,707	589,197	-9.30%
Operating Expenses	917,795	1,021,329	955,034	963,727	-1.05%
Equipment	1,575	0	0	0	-100.00%
Grants	11,968	11,968	11,968	11,968	.00%
Total Program	\$1,498,787	\$1,765,657	\$1,556,709	\$1,564,892	-4.38%

Fund Sources

General Fund	215,606	301,997	219,527	219,544	-15.17%
State Revenue Fund	34,105	54,849	60,020	65,874	41.53%
Federal Revenue Fund	1,249,076	1,408,811	1,277,162	1,279,474	-3.81%
Total Funds	\$1,498,787	\$1,765,657	\$1,556,709	\$1,564,892	-4.38%

Program Description

The Preventive Health Services Bureau, which detects and monitors a variety of health problems and risk factors in Montana, is comprised of the following programs: 1) Bureau Administration; 2) Chronic Disease Prevention and Health Promotion, which lowers the risk of chronic disease morbidity, mortality, and disability through data collection, education, and training; 3) Communicable Diseases, which provides surveillance and outbreak control of reportable infectious diseases and includes the AIDS and Sexually Transmitted Diseases (STD) programs; 4) Immunization, which prevents the occurrence and transmission of vaccine-preventable diseases such as measles, mumps, and rubella; 5) Sexual Assault Services, which supports rape crisis intervention programs; 6) End Stage Renal Disease, which provides medical payments to persons suffering from chronic end stage kidney disease; and 7) Rabies, which provides consultation and vaccine to persons exposed to rabies.

Current Level Budget

The reduction of 3.0 FTE from the appropriated fiscal 1991 level is due to: 1) the elimination of 1.0 FTE position in the AIDS program that was vacant throughout fiscal 1990 while the

bureau attempted to secure a grade change; 2) the transfer of 1.0 FTE dentist to the Director's Office; and 3) the transfer of 1.0 FTE with the MIAMI Program to the Family/MCH Bureau. The MIAMI and Dental Unit transfers are reflected in the fiscal 1990 totals. In the 1991 biennium, the Preventive Health bureau chief was a grade 23 medical doctor. The department is proposing that the position be reclassified as a grade 18, saving \$23,450 per year. Current level includes this downgrade. Personal services decrease 9.3 percent as a net result of these adjustments, vacancy savings realized in fiscal 1990, and continuation of the fiscal 1991 pay plan increase.

Adjustments to operating expenses include: 1) an increase of \$23,688 per year in the AIDS program to reflect the fiscal 1991 appropriation level; 2) a reduction of \$12,988 per year in discretionary funds; and 3) an increase of \$25,915 in fiscal 1992 and \$31,769 in fiscal 1993 in authority for the rabies vaccine program, which provides rabies vaccine as needed and is subsequently reimbursed. Non-operating expenses includes grants made to local organizations to maintain rape crisis hotlines, which are required in order to receive federal preventive health block grant funds.

PREVENTIVE HEALTH BUREAU

Table 18 details the funding of each of the components of the Preventive Health Bureau.

Table 18
Preventive Health Bureau Funding
Fiscal 1990, 1993 Biennium

<u>Program</u>	<u>Fiscal 1990</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
Bureau Administration			
Preventive Health Block	\$ 69,667	\$ 76,299	\$ 74,574
Maternal/Child Health Block*	218,892	194,721	196,926
Health Ed/Risk Reduction			
Behavioral Risk Reduction	14,323	0	0
Preventive Health Block	42,632	47,275	47,491
Federal Chronic Disease	86,842	102,622	102,688
AIDS			
Federal AIDS	564,453	606,855	606,952
Communicable Diseases			
General Fund	49,317	53,233	53,250
Sexually Transmitted Diseases			
Federal STD***	48,556	49,024	49,115
Immunization			
General Fund	41,289	41,294	41,294
Immunization**	178,755	188,398	189,760
Rape Crisis			
Preventive Health Block	11,968	11,968	11,968
Renal Program			
General Fund	125,000	125,000	125,000
Rabies			
Rabies Vaccine	34,105	60,020	65,874
Discretionary Carryover			
Federal Funds	<u>12,988</u>	<u>0</u>	<u>0</u>
Total	\$1,498,787	\$1,556,709	\$1,564,892

* Total grant must be matched 3/7 state dollars to 4/7 federal dollars.

** Requires maintenance of effort.

***Part of the immunization maintenance of effort requirement.

The general fund is reduced from the fiscal 1991 appropriated level due to the transfer of the MIAMI Program to another bureau. General fund in the Immunization program provides the maintenance of effort required for receipt of both the federal immunization and STD grants. Behavioral risk reduction funds have been merged with federal chronic disease funds in the 1993 biennium.

Executive Budget Modification

Chronic Disease Prevention

The Executive Budget includes \$81,000 in increased federal fund authority for the biennium to continue the 0.5 FTE, related operating expenses, and grants to counties for pilot programs added to the Chronic Disease program by budget amendment in fiscal 1991. The

PREVENTIVE HEALTH BUREAU

modification would allow continued development of an information system to determine risk factors related to the leading causes of morbidity and mortality in Montana.

Sexually Transmitted Disease (STD)

The Executive Budget includes \$109,624 in increased federal fund authority for the biennium to continue 1.5 FTE and related operating expenses added by budget amendment in fiscal 1990. Continuation of this staff will allow: 1) increased information and education about STD's; 2) improved comprehensive

STD surveillance; and 3) provision of a syphilis screening plan for high-risk populations.

Community-Based TB Care

The Executive Budget includes a biennial \$150,000 general fund appropriation to provide community-based care for tuberculosis patients due to the proposed closure of the state facility in Galen. The department would provide medication for therapy. All costs recovered from insurance coverage or other sources would be deposited to the general fund.

LICENSING, CERTIFICATION, & CONSTRUCTION BUREAU

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	32.55	32.55	31.55	31.55	-1.00
Personal Services	735,421	938,250	977,876	976,982	16.80%
Operating Expenses	289,070	661,783	364,981	365,020	-23.23%
Equipment	<u>13,311</u>	<u>9,500</u>	<u>8,849</u>	<u>8,849</u>	<u>-22.42%</u>
Total Program	\$1,037,802	\$1,609,533	\$1,351,706	\$1,350,851	2.09%
<u>Fund Sources</u>					
General Fund	335,362	424,056	512,522	534,712	37.90%
Federal Revenue Fund	<u>702,440</u>	<u>1,185,477</u>	<u>839,184</u>	<u>816,139</u>	<u>-12.32%</u>
Total Funds	\$1,037,802	\$1,609,533	\$1,351,706	\$1,350,851	2.09%

Program Description

The Licensing, Certification, and Construction Bureau issues licenses, grants medicaid certification, recommends medicare certification, approves new and renovation construction projects for all health care providers, and enforces state and federal laws governing health care facilities.

Current Level Budget

There is a significant increase over fiscal 1990 levels in general fund support for this bureau's current level budget for two reasons: 1) all authorized positions (except the 1.0 FTE that is eliminated) are fully funded, despite significant vacancy savings in fiscal 1990 and continuing ongoing

vacancies, since certification is necessary before facilities can receive medicare or medicaid funds and is required under federal rules to be done in a timely manner; and 2) state matching funds are budgeted based on federal requirements.

Each of the three functions of the bureau--state licensure, medicaid certification, and recommendation of medicare certification--has a unique funding source. Licensing is completely funded with general fund. Medicaid certification is funded with federal Title 19 funds and a general fund match. Recommendation for medicare certification is completely funded with federal Title 18 funds. Table 19 details the bureau's funding.

LICENSING, CERTIFICATION, & CONSTRUCTION

Table 19
Licensing and Certification Bureau Funding
Fiscal 1990, 1993 Biennium

	<u>Fiscal 1990</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
Medicaid Matching Rate*	---**	0.1375	0.1875
General Fund	\$ 335,362	\$ 512,522	\$ 534,712
Title 19 Medicaid	278,215	388,615	365,855
Title 18 Medicare	<u>424,225</u>	<u>450,569</u>	<u>450,284</u>
Total	\$1,037,802	\$1,351,706	\$1,350,851

* Match in fiscal 1993 will be 18.75 percent, in fiscal 1994 23.75 percent, and in fiscal 1995 and beyond 25 percent.

**Match in fiscal 1990 was 25 percent for personal services, travel, and training; and 50 percent for all other costs.

The final amount of funding from each source depends upon the time actually spent by staff on each function during the year. Therefore, the "mix" of funding can and does change. In fiscal 1990, general fund comprised 32 percent of total expenditures. However, the federal government strongly recommends states budget as though time spent on each function will be evenly split or risk the loss of federal funds.

The current level budget for the 1993 biennium funds the bureau on the assumption that one-third time will be spent on licensing, one-third on medicaid certification, and one-third on recommendation of medicare certification, resulting in the increase in general fund of 37.9 percent (approximately \$188,000 over fiscal 1990 levels). If staff spend more time in federally supported activities, the excess general fund would revert. Consequently, the legislature may wish to prohibit the transfer of general fund from this bureau.

A 1.0 FTE program assistant position is eliminated since it was left vacant throughout fiscal 1990 while the bureau attempted to obtain a grade change. This is offset by fully funding the remaining authorized staff and continuation of the 1991 pay plan in the

1993 biennium. In addition, surveyors received a blanket pay plan exception allowing them to be paid at a higher step, which added \$64,378 in fiscal 1992 and \$64,230 in fiscal 1993.

Operating expenses decrease 23.2 percent as a net result of:

1) elimination of contracted services added in the 1991 biennium for nurse's aide training under the federal Omnibus Budget and Reconciliation Act of 1987 but not expended in fiscal 1990. Since the department will not have this responsibility in the 1993 biennium, it did not request continuation of the \$259,500 appropriated in fiscal 1991;

2) supplies were reduced by \$22,458 to return the bureau to the fiscal 1990 appropriated level;

3) travel was increased \$60,957 to the fiscal 1990 appropriated level based on the assumption that surveyor positions would be fully staffed and the function fully operational;

4) indirect assessments increase \$26,744 in fiscal 1992 and \$26,266 in fiscal 1993 over the actual fiscal 1990 level due to full staffing, and 5) rent charges increase \$9,629 due to a

LICENSING, CERTIFICATION, & CONSTRUCTION

reallocation of space used caused by the increase in staff in the 1991 biennium.

The legislature may wish to specify that funds added on the assumption of full staffing cannot be used elsewhere in the budget.

Executive Budget Modification

Federal Nursing Home Reform

This modification adds \$878,495 in fiscal 1992 and \$827,982 in fiscal 1993 for 15.0 FTE and related operating expenses to continue implementation of new programs and expanded certification requirements contained in the federal Omnibus Budget and Reconciliation Act

(OBRA) of 1987. These positions were originally added via budget amendment in fiscal 1991, in addition to the 6.0 FTE authorized by the 1989 legislature to address changes under OBRA. Funding for the 15.0 FTE would be from three sources: 1) federal medicare funds totalling \$594,881 in fiscal 1992 and \$557,402 in fiscal 1993; 2) federal medicaid funds totalling \$233,607 in fiscal 1992 and \$202,156 in fiscal 1993; and 3) general fund, which provides the required match on medicaid funds and totals \$50,007 in fiscal 1992 and \$68,424 in fiscal 1993. The difference in general fund is due to a change in the required match rate between fiscal 1992 and fiscal 1993.

COMPARISON OF EXECUTIVE AND LFA CURRENT LEVELS

LABOR & INDUSTRY

Budget Item	Executive Current Level		LFA Current Level		Executive Over(Under) LFA
	Fiscal 1992	Fiscal 1993	Fiscal 1992	Fiscal 1993	
FTE	629.50	629.50	632.50	632.50	(3.00)
Personal Services	17,290,255	17,271,571	17,330,296	17,312,254	(80,724)
Operating Expenses	7,554,280	7,492,069	7,526,435	7,496,435	23,479
Equipment	329,137	299,909	234,299	226,033	168,714
Grants	13,941,270	14,159,525	13,940,510	14,158,765	1,520
Benefits and Claims	423,224	394,028	423,224	394,028	0
Total Agency	\$39,538,166	\$39,617,102	\$39,454,764	\$39,587,515	\$112,989
<u>Fund Sources</u>					
General Fund	699,733	671,118	707,867	677,856	(14,872)
State Revenue Fund	3,238,570	3,233,731	3,146,936	3,139,930	185,435
Federal Revenue Fund	32,616,598	32,763,584	32,763,318	32,932,817	(315,953)
Proprietary Fund	2,983,265	2,948,669	2,836,643	2,836,912	258,379
Total Funds	\$39,538,166	\$39,617,102	\$39,454,764	\$39,587,515	\$112,989

Executive Budget Comparison

The Executive Budget current level is \$112,989 higher over the biennium than the LFA current level, primarily due to differences in equipment.

LFA current level includes \$80,724 more for personal services than the Executive Budget due to the net of two factors. The Executive Budget eliminates 3.0 FTE in the Unemployment Insurance Division due to extended vacancy. The positions are retained in LFA current level at a total biennial cost of \$145,000 of federal funds. The Executive Budget includes approximately \$64,000 over the biennium in additional longevity, differential, overtime, other compensation, and termination and sick leave payment not included in the LFA current level.

The difference in operating expenses between the LFA current level and the Executive Budget is less than 0.2 percent.

Within equipment, the difference is primarily because the Executive Budget includes \$129,218 of computer equipment in the Research, Training, and Safety Division not included in the LFA current level to: 1) replace equipment on loan to a private organization that took over from the department certain administrative functions for the private industry councils; and 2) expand the division's networking capabilities.

The difference in general fund of \$14,872 is because the Executive Budget assumes a higher level of federal funds to offset general fund in the Human Rights Commission than does the LFA current level.

Proprietary income funds the Centralized Services and Legal Services Divisions. The difference in proprietary income between the LFA current level and the Executive Budget is due to differences in total funding for the two divisions.

LABOR & INDUSTRY

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	644.09	656.50	632.50	632.50	-24.00
Personal Services	15,925,172	17,877,858	17,330,296	17,312,254	2.48%
Operating Expenses	7,520,099	7,559,538	7,526,435	7,496,435	-.38%
Equipment	442,677	459,363	234,299	226,033	-48.97%
Grants	9,312,213	12,364,614	13,940,510	14,158,765	29.63%
Benefits and Claims	<u>579,135</u>	<u>511,999</u>	<u>423,224</u>	<u>394,028</u>	<u>-25.10%</u>
Total Agency	\$33,779,296	\$38,773,372	\$39,454,764	\$39,587,515	8.94%
<u>Fund Sources</u>					
General Fund	767,188	977,947	707,867	677,856	-20.60%
State Revenue Fund	2,748,874	2,903,318	3,146,936	3,139,930	11.23%
Federal Revenue Fund	27,848,065	32,131,255	32,763,318	32,932,817	9.53%
Proprietary Fund	<u>2,415,169</u>	<u>2,760,852</u>	<u>2,836,643</u>	<u>2,836,912</u>	<u>9.61%</u>
Total Funds	\$33,779,296	\$38,773,372	\$39,454,764	\$39,587,515	8.94%

Agency Description

The Department of Labor and Industry, provided for in Section 2-15-1701, MCA, serves as an employment agency, collects and disburses state unemployment funds, provides training, and oversees federal Job Training Partnership Act (JTPA) grants. The department also enforces state wage and hour laws, provides for apprenticeships, hears classification and unemployment insurance disputes, and enforces state and federal anti-discrimination in employment laws.

Current Level Budget

The department's current level budget increases by 8.9 percent from the 1991 biennium to the 1993 biennium primarily due to a reorganization of this department and the State Compensation Mutual Insurance Fund (State Fund) in fiscal 1990. The initial reorganization is reflected in the fiscal 1991 appropriation. Subsequent adjustments to the initial reorganization are reflected in actual fiscal 1990 expenditures but not in the fiscal 1991 appropriation. For a further discussion, see the "Reorganization" section.

General fund supports a portion of the Human Rights Commission and all silicosis and social security offset benefits in the Employment Relations Division.

State special revenue primarily consists of workers' compensation funds to support various activities transferred to the department when the Division of Workers' Compensation was restructured.

The department is primarily funded with federal funds from a variety of sources, including job service, unemployment insurance, Job Training Partnership Act (JTPA), and the Bureau of Labor Statistics. Federal funds also include unemployment insurance administrative tax, which is funded by an assessment on all Montana wages.

Proprietary funds are indirect assessments made against all programs of the department to fund centralized services and a portion of the legal staff. The reorganization increased the responsibilities of the Centralized Services program, which is reflected in the increase in proprietary funds.

Reorganization

In fiscal 1990, the Division of Workers' Compensation (DWC), which had been

LABOR & INDUSTRY

administratively attached to the Department of Labor and Industry (DOLI), was restructured. The State Fund was created to administer the workers' compensation insurance functions, with DOLI assuming all regulatory functions formerly performed by DWC.

The following table shows the FTE movement from DWC to DOLI. In some instances, positions were transferred to DOLI and then transferred back to the State Fund. The table shows the net addition to DOLI.

Table 1
DWC (State Fund)
Programs and FTE Transferred to DOLI

<u>Program</u>	<u>Total Fiscal 1991 DWC</u>	<u>TR Net Transfer to DOLI</u>	<u>Function</u>
Administration	42.50	9.00	Accounting/Clerical/Legal
State Fund	130.00	0.00	-----
Insurance Compliance	41.75	34.75	Enforcement/Mediation/Appeals/ Case Management
Safety & Health	<u>24.5</u>	<u>19.5</u>	Safety Consult/Inspection for Non-State Fund Employers
Total	238.75	63.25	

In addition, the Workers' Compensation Court, including 8.0 FTE, was transferred from the Department of Administration. As a result of the reorganization, costs increase in three areas: 1) indirect costs; 2) rent; and 3) data processing.

Indirect Costs

Centralized functions of DWC were paid with a direct appropriation of state workers' compensation funds and federal funds. Centralized functions of DOLI are paid through an assessment against all programs. DWC made a one-time payment in fiscal 1990 and 1991 for indirect assessments against the programs transferred to DOLI. However, this payment will not continue in the 1993 biennium. Since transfer of additional FTE and programs from DWC did not include funding for Centralized Services assessments, the other programs in DOLI must pay the increased cost of centralized functions.

Rent

Transfer of functions from the State Fund to DOLI resulted in physical movement of programs that required DOLI to secure additional space. In the 1993 biennium, LFA current level includes an additional \$183,084 over the biennium for rent for this additional space. The increased rent is funded with state workers' compensation funds and federal funds.

Data Processing

The Executive Budget includes \$198,660 and the LFA current level includes approximately \$190,531 over the biennium of federal and state funds in the Employment Relations Division and the Legal Services Division for expanded data processing related to their assumption of regulatory functions from DWC. While the overall responsibilities of regulation have not increased, the department has stated its desire to electronically link the regulatory functions with other department programs and to separate its data management system from that of the State Fund.

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DOLI Internal Reorganization

In addition to assuming certain functions from DWC, DOLI completed an internal reorganization to consolidate legal services and to decentralize certain recordkeeping and audit functions. The impacts of that reorganization are discussed in the individual program narratives.

Several funds decrease during the biennium due to an anticipated reduction in silicosis and social security offset benefit payments.

Executive Budget Modifications

The Executive Budget includes the following budget modifications, which are discussed in the program narratives that follow.

Executive Budget Modification 1993 Biennium

<u>Budget Modifications</u>	<u>FTE FY92</u>	<u>FTE FY93</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
1) Job Service EDWAA/TAA	6.0	6.0		\$ 507,389	\$ 507,389
2) Unemployment Insurance Collections	3.0	3.0		234,297	234,297
3) EDWAA/TAA Participant Payments				1,261,228	1,261,228
4) Project Work Program	—	—	—	720,000	720,000
Total	9.0	9.0	\$0	\$2,722,914	\$2,722,914

JOB SERVICE DIVISION

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	315.60	313.85	314.85	314.85	1.00
Personal Services	7,759,153	8,495,114	8,568,525	8,559,222	5.37%
Operating Expenses	3,142,662	2,885,711	3,080,284	3,083,344	2.24%
Equipment	<u>88,172</u>	<u>103,764</u>	<u>81,759</u>	<u>82,419</u>	<u>-14.46%</u>
Total Program	\$10,989,987	\$11,484,589	\$11,730,568	\$11,724,985	4.36%
<u>Fund Sources</u>					
State Revenue Fund	87,011	89,158	90,491	90,491	2.73%
Federal Revenue Fund	<u>10,902,976</u>	<u>11,395,431</u>	<u>11,640,077</u>	<u>11,634,494</u>	<u>4.38%</u>
Total Funds	\$10,989,987	\$11,484,589	\$11,730,568	\$11,724,985	4.36%

Program Description

The Job Service Division provides a wide range of federally funded employment and training programs including: 1) employment services; 2) unemployment insurance; 3) veterans services; 4) migrant and seasonal farm worker services; 5) alien certification; 6) housing inspection; 7) immigration reform and control act; 8) federal bonding program; 9) job training partnership; 10) targeted job tax credit; and 11) trade adjustment/readjustment assistance. The Job Service Division also participates on Workers' Compensation rehabilitation panels.

Current Level Budget

Job Service Division's budget increases 4.4 percent over the 1991 biennium primarily due to personal services increases. FTE increase by 1.0 over the fiscal 1991 appropriated level, but decrease 0.75 FTE from the actual fiscal 1990 level. This is due to: 1) transfer of 1.0 FTE from Centralized Services to decentralize recordkeeping functions; and 2) elimination of 1.75 FTE in the Work Incentive (WIN) program due to that program's elimination.

Despite the net reduction in FTE, personal services increase by 5.4 percent due to vacancy savings experienced in fiscal 1990 and

continuation of the fiscal 1991 pay plan in the 1993 biennium.

Operating expenses increase by 2.2 percent over the biennium but decrease by 1.2 percent from fiscal 1990 to fiscal 1992. This is due primarily to the net of two factors: 1) contracted services are reduced \$69,600, as alien certification activities formerly provided under contract with the Employment Policy Division will be performed by Job Service staff; and 2) rent increases by \$5,491 over the biennium at several local job services offices and by \$18,270 in fiscal 1990 and \$19,545 in fiscal 1993 due to movement of this division to a new building. (For a further discussion of rent, see the "Reorganization" section in the agency narrative.) Equipment consists of replacement vehicles and miscellaneous office and computer equipment.

State special revenue consists of workers' compensation funds and supports the Workers' Compensation Rehabilitation Panel. Federal funds consist of: 1) employment and training funds for Job Training Partnership Act activities; 2) unemployment insurance administration tax; and 3) job service and unemployment insurance funds.

Due to concerns that federal funds would not be sufficient to maintain the operation of all rural job service offices, the 1983 legislature authorized DOLI to use unemployment insurance

JOB SERVICE DIVISION

administrative tax (UI admin tax), which is collected by an assessment on all wages to make up any federal fund shortfall. No expenditures of UI administration tax were made in the Job Service Division until fiscal 1989, when \$350,000 was spent. In fiscal 1990, the division expended \$551,389 of these funds. LFA current level includes \$880,449 in fiscal 1992 and \$588,281 in fiscal 1993 to fund the Job Service Division. The difference between the two years is due to an increase in the availability of unemployment insurance funds in fiscal 1993.

Executive Budget Modification

EDWAA/TAA Grants

The Executive Budget includes \$253,869 in fiscal 1992 and \$253,520 in fiscal

1993 to fund 6.0 FTE and related expenses associated with operation of JTPA-funded Economic Dislocated Worker Adjustment and Assistance (EDWAA) and Trade Adjustment Assistance (TAA) programs. During the current biennium, the Job Service Division was designated the state's EDWAA "Rapid Response Agency" by the Governor's Job Training Coordinating Council (JTCC). As such, the division provides services to employees who may be laid off before a business shuts down. The program, which was begun via budget amendment in fiscal 1991, is 100 percent federally funded. Payments to program participants are requested in the Job Training Grants program.

UNEMPLOYMENT INSURANCE

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	98.90	84.90	98.90	98.90	14.00
Personal Services	2,233,167	2,100,501	2,494,753	2,491,431	15.06%
Operating Expenses	1,279,684	1,216,478	1,306,002	1,284,368	3.77%
Equipment	<u>18,467</u>	<u>45,000</u>	<u>69,730</u>	<u>64,243</u>	<u>111.09%</u>
Total Program	\$3,531,318	\$3,361,979	\$3,870,485	\$3,840,042	11.86%
<u>Fund Sources</u>					
Federal Revenue Fund	<u>3,531,318</u>	<u>3,361,979</u>	<u>3,870,485</u>	<u>3,840,042</u>	<u>11.86%</u>
Total Funds	\$3,531,318	\$3,361,979	\$3,870,485	\$3,840,042	11.86%

Program Description

The Unemployment Insurance Division administers the state's unemployment insurance law and related federal programs. This division determines employers' tax liability; processes employer quarterly reports; collects taxes; determines employer tax rates; receives, processes, and pays benefits claims; adjudicates problem claims; and compiles data for state and federal reporting. The division operates through three bureaus: 1) the Benefits Bureau; 2) the Contributions Bureau; and 3) the Planning and Evaluation Bureau.

savings achieved in fiscal 1990, and continuation of the fiscal 1991 pay plan increase in the 1993 biennium.

Operating expenses increase 3.8 percent over the two biennia. This is due to the net of two factors: 1) the fiscal 1991 appropriation does not include additional costs resulting from the transfer of audit and data processing functions; and 2) Department of Administration data processing charges are deflated in the 1993 biennium. Equipment, which includes new and replacement computer equipment, is funded at the agency request.

This division is entirely funded with federal unemployment insurance funds.

Current Level Budget

The Unemployment Insurance Division's current level budget increases by 11.9 percent in the 1993 biennium primarily due to additional staff and indirect changes to fund Centralized Services added in the reorganization of DOLI and DWC.

FTE increase by 14.0 over the fiscal 1991 level as a result of: 1) 3.0 FTE transferred from Centralized Services as part of the agency decentralization of data entry services; and 2) 11.0 FTE audit staff transferred from Centralized Services as part of the reorganization. The transfers are reflected in actual fiscal 1990 expenditures but not in the fiscal 1991 appropriation. Personal services increase by 15.1 percent because of the FTE additions, vacancy

Executive Budget Modification

Unemployment Insurance (UI) Accounts Receivable

The Executive Budget includes \$129,204 in fiscal 1992 and \$105,093 in fiscal 1993 to fund 3.0 FTE and related operating expenses for collection of UI accounts receivable. According to the department, the division is not collecting accounts receivable due to staff shortage and collection would add approximately \$550,000 over the biennium to the UI insurance fund and could potentially increase contributions to the UI penalty and interest account. This modification is funded 100 percent with federal unemployment insurance funds.

COMMISSIONER/CENTRALIZED SERVICES

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	64.50	67.00	64.50	64.50	-2.50
Personal Services	1,794,061	1,927,617	1,888,992	1,886,558	1.45%
Operating Expenses	860,680	798,345	790,097	792,888	-4.58%
Equipment	40,311	41,650	19,138	19,107	-53.34%
Total Program	\$2,695,052	\$2,767,612	\$2,698,227	\$2,698,553	-1.21%
<u>Fund Sources</u>					
State Revenue Fund	86,687	10,260	0	0	-100.00%
Federal Revenue Fund	314,650	0	0	0	-100.00%
Proprietary Fund	2,293,715	2,757,352	2,698,227	2,698,553	6.84%
Total Funds	\$2,695,052	\$2,767,612	\$2,698,227	\$2,698,553	-1.21%

Program Description

The Commissioner/Centralized Services Division provides overall administration and support services to the department. The Commissioner's Office is responsible for overall administration of the department including: 1) provision of program direction; 2) management of human and financial resources; and 3) representation on all legislative matters. Centralized Services provides the central support functions of the department through four bureaus: 1) Information Services; 2) Management Services; 3) Personnel and Training; and 4) Audit.

3.0 FTE from DWC, were transferred to this division in fiscal 1990 for transfer to other programs in fiscal 1991. This division retained two positions resulting in a net increase of 2.0 FTE over the fiscal 1991 appropriated level; and 2) 2.0 FTE accounting staff and 1.0 FTE computer programmer were transferred from the State Fund due to the reorganization. All transfers are reflected in actual fiscal 1990 expenditures but not in the fiscal 1991 appropriation. Personal services increase 1.5 percent despite the net reduction in FTE due to vacancy savings in fiscal 1990 and continuation of the fiscal 1991 pay plan increase in the 1993 biennium.

Current Level Budget

The Commissioner/Centralized Services Division current level decreases slightly over the biennia. FTE decrease by 2.5 as a net result of several transfers to and from this division due to the department's internal reorganization and the DWC transfer. The following positions were transferred from the division: 1) 3.5 FTE legal staff to the newly-created Legal Division to centralize legal functions; 2) 3.0 FTE to the Unemployment Insurance Division to decentralize data entry; and 3) 1.0 FTE to the Job Service Division to decentralize recordkeeping. The division gained the following positions: 1) all 25.0 FTE audit staff, including

Operating expenses decrease 4.6 percent primarily because fiscal 1990 expenditures included \$86,460 of DWC audit costs which are not continued in the 1993 biennium. Partially offsetting this decrease are increased insurance costs and rent due to additional space requirements resulting from the reorganization. Equipment includes computer and duplicating equipment.

State special revenue in the 1991 biennium consisted of a one-time payment from the State Fund for indirect costs associated with the department's assumption of staff and programs as part of the reorganization of the agency and the State Fund. Because this was a one-time payment, it is not continued in the 1993 biennium. All indirect assessments

COMMISSIONER/CENTRALIZED SERVICES

in the 1993 biennium are paid by the programs receiving the additional staff.

Federal revenue in fiscal 1990 consisted of indirect assessments against other agency programs and DWC for support of the Audit Bureau. Audit functions have now been decentralized as part of the

agency reorganization and all audit expenses will be funded with funding sources within the programs receiving audit staff.

Proprietary funds are indirect assessments charged to all programs within the department.

EMPLOYMENT RELATIONS

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	59.75	97.25	59.75	59.75	-37.50
Personal Services	1,343,866	2,621,374	1,563,425	1,562,000	-21.18%
Operating Expenses	634,019	924,892	811,534	812,146	4.15%
Equipment	97,444	21,319	9,659	9,659	-83.73%
Benefits and Claims	496,989	511,999	423,224	394,028	-19.00%
Total Program	\$2,572,318	\$4,079,584	\$2,807,842	\$2,777,833	-16.03%
<u>Fund Sources</u>					
General Fund	507,748	525,077	423,224	394,028	-20.87%
State Revenue Fund	1,353,994	1,598,329	1,711,871	1,706,302	15.78%
Federal Revenue Fund	710,576	1,952,678	669,002	673,758	-49.58%
Proprietary Fund	0	3,500	3,745	3,745	114.00%
Total Funds	\$2,572,318	\$4,079,584	\$2,807,842	\$2,777,833	-16.03%

Program Description

The Employment Relations Division administers and enforces state statutes and rules on legal issues arising through the division's boards and bureaus. This division includes five functional units: 1) the five-member Board of Personnel Appeals, which hears classification appeals for state government employees and grievances for employees in the Departments of Highways and Fish, Wildlife, and Parks; 2) the three-member Board of Labor Appeals, which hears appeals concerning the administration of Montana's unemployment insurance laws; 3) the Administrative Support Unit, which provides division-wide administrative support and serves as staff for both of the division's quasi-judicial boards; 4) the Dispute Resolution Bureau, which assists organizations and individuals to arrive at early, less expensive settlement of their disputes and obligations concerning labor issues; and 5) the Standards Bureau, which enforces obligations created by state and federal laws and rules.

Current Level Budget

The Employment Relations Division budget decreases 16.0 percent due primarily to a reorganization.

The fiscal 1991 appropriation includes the transfer of 41.75 FTE from the Insurance Compliance program of the Division of Workers' Compensation. In fiscal 1990, the following adjustments were made, which continue in the 1993 biennium: 1) 10.5 FTE were transferred to the Legal Services Division to consolidate legal functions; 2) a net 22.0 FTE audit staff were transferred to the Centralized Services Division, where they were reallocated to other programs; and 4) 7.0 FTE accident catalogers were transferred to the State Fund, while 2.0 FTE catalogers were transferred to this division from the Research, Safety, and Training Division, for a net reduction of 5.0 FTE catalogers. In addition, a 0.5 FTE added by the 1989 legislature in fiscal 1991 for enforcement and monitoring of minimum wage claims is continued in the 1993 biennium.

Operating expenses increase 4.2 percent over the biennia primarily due to the net effect of: 1) elimination of one-time telephone moving charges; 2) elimination of audit expenses associated with the Division of Workers' Compensation; 3) an increase in rent; and 4) an increase in indirect charges due to full funding in the 1993 biennium. Indirect charges are not reflected in the fiscal 1991 appropriation and only partially funded in fiscal 1990. Equipment, which

EMPLOYMENT RELATIONS

includes computer equipment, reflects the agency request.

Benefits and claims include silicosis benefits and social security offsets. Silicosis benefits are paid to those persons who contracted the disease on the job prior to 1959 or their widows. Social security offset payments are made to those persons adversely affected by a 1974 law, offsetting payments from the Division of Workers' Compensation 100 percent for any social security payments received for the same purpose. The law was subsequently changed to a 50 percent offset. LFA current level for the 1993 biennium includes the agency's projection of costs.

General fund supports the silicosis and social security offset payments. It declines during the biennium due to the

anticipated reduction in benefit payments. State special revenue includes: 1) 'workers' compensation funds which support activities related to workers' compensation fraud, claims resolution and mediation, medical regulations, and policy and rehabilitation compliance; and 2) Board of Personnel Appeals fact finding income, which comes from the union representing the aggrieved party and provides funds to hire an outside fact-finder. These funds previously were classified as federal/private. Federal funds consist of: 1) unemployment insurance administrative tax to fund the collective bargaining unit, prevailing wage claims, business bonds programs, and some expenses of the appeals boards; and 2) federal unemployment insurance funds. Proprietary funds include income from the sale of copies of Board of Personnel Appeals decisions.

LEGAL SERVICES DIVISION

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	18.00	.00	18.00	18.00	18.00
Personal Services	494,880	0	588,617	588,109	137.78%
Operating Expenses	203,899	0	247,654	247,647	142.91%
Equipment	46,858	0	5,422	5,584	-76.51%
Total Program	\$745,637	\$0	\$841,693	\$841,340	125.72%
<u>Fund Sources</u>					
State Revenue Fund	218,760	0	248,299	248,195	126.96%
Federal Revenue Fund	405,423	0	458,723	458,531	126.25%
Proprietary Fund	121,454	0	134,671	134,614	121.72%
Total Funds	\$745,637	\$0	\$841,693	\$841,340	125.72%

Program Description

The Legal Division provides legal and hearings services to the department. This new division, which was created during the recent departmental reorganization, absorbed the regulatory duties of the former Workers' Compensation Division. It consists of a Legal Unit and a Hearings Bureau.

late fiscal 1990, vacancy savings experienced in fiscal 1990, and continuation of the fiscal 1991 pay plan increase in the 1993 biennium.

Operating expenses increase over the fiscal 1990 level primarily due to the addition of maintenance contracts on existing computer equipment and increased indirect charges to fund Centralized Services. Equipment includes computer equipment.

Current Level Budget

As the Legal Division was created as part of the 1991 biennium reorganization of DOLI and the State Fund, there was no fiscal 1991 appropriation for this function, causing the 125.7 percent increase between the 1991 and 1993 biennia.

All FTE are existing staff transferred from other programs: 1) 3.5 FTE from the Centralized Services Division; 2) 10.5 FTE from the Employment Relations Division; and 3) 4.0 FTE from the State Fund. Personal services increase 18.9 percent over the fiscal 1990 level due to upgrades given to all attorneys in

The Legal Division is funded by a combination of state, federal, and proprietary funds. State special revenue consists of workers' compensation funds and supports legal work relating to workers' compensation regulatory functions. Federal revenue includes unemployment insurance and unemployment insurance administrative tax, which funds benefit hearings and personnel appeals. The proprietary income is paid through assessments on all programs of the department for general legal work. LFA current level maintains funding at the same ratio at which the funds were expended in fiscal 1990.

RESEARCH, SAFETY, AND TRAINING

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	66.50	72.50	59.50	59.50	-13.00
Personal Services	1,798,697	2,113,064	1,711,412	1,711,046	-12.51%
Operating Expenses	1,191,980	1,500,636	1,083,992	1,067,913	-20.08%
Equipment	<u>142,143</u>	<u>247,630</u>	<u>38,454</u>	<u>38,454</u>	<u>-80.27%</u>
Total Program	\$3,132,820	\$3,861,330	\$2,833,858	\$2,817,413	-19.20%
<u>Fund Sources</u>					
State Revenue Fund	687,504	883,035	745,637	746,486	-4.99%
Federal Revenue Fund	<u>2,445,316</u>	<u>2,978,295</u>	<u>2,088,221</u>	<u>2,070,927</u>	<u>-23.32%</u>
Total Funds	\$3,132,820	\$3,861,330	\$2,833,858	\$2,817,413	-19.20%

Program Description

The Research, Safety, and Training Division provides planning and administrative functions for employment, job training, and safety activities in the department. The division is organized into three bureaus: 1) the Apprenticeship and Training Bureau, which administers employment and training programs, serves as staff to the State Job Training Coordinating Council and Apprenticeship Advisory Council, and serves as the state registration agency for apprenticeship programs; 2) the Research and Analysis Bureau, which develops data and statistics, conducts studies, charts and forecasts trends, and publishes information regarding employment and unemployment in Montana; and 3) the Safety Bureau, which administers the state's industrial safety laws.

Current Level Budget

The Research, Safety, and Training Division's budget decreases 19.2 percent over the biennia primarily due to a reorganization and a reduction in FTE due to privatization of administrative support for the Private Industry Councils.

FTE are reduced by 7.0 from the fiscal 1990 level and by 13.0 from the fiscal 1991 appropriation. The fiscal 1991 appropriation reflects the transfer of

24.5 FTE from the Safety Bureau in DWC. In fiscal 1990, the following changes were made: 1) 5.0 FTE were transferred to the State Fund to conduct safety inspections and provide consultation for those employers covered by the fund; 2) 1.0 FTE was transferred to the Legal Services Division to consolidate legal functions; and 3) 3.0 FTE were transferred to this division from the DWC to collect statistical data. These transfers are maintained in the 1993 biennium. In addition: 1) 1.0 FTE added by the 1989 legislature for prevailing wage data collection and analysis is maintained in the 1993 biennium; 2) 2.0 FTE accident catalogers and 1.0 FTE microfilm clerk are transferred to the Employment Relations Division; and 3) 7.0 FTE are eliminated due to privatization of administrative support for the private industry councils.

Personal services decrease 12.5 percent due to the net effect of the FTE changes, vacancy savings in fiscal 1990, and continuation of the fiscal 1991 pay plan in the 1993 biennium.

Operating expenses decrease 20.1 percent from the 1991 biennium due to the reorganization. Operating expenses decrease by 9.0 percent from actual fiscal 1990 expenditures primarily because: 1) audit fees of \$39,659 associated with the Division of Workers' Compensation are not continued in the 1993 biennium; and 2) contracted services are reduced by \$33,614 in

RESEARCH, SAFETY, AND TRAINING

fiscal 1992 due to privatization of administrative support for the private industry councils. Contracted services are further reduced by \$9,000 in fiscal 1993 due to expected completion of the apprenticeship promotional video.

Equipment includes various computer equipment and is based upon historical levels.

State special revenue is state workers' compensation funds to support the Safety Bureau. Federal funds include three grants: 1) two from the Occupation

Safety and Health Administration (OSHA) for on-site consultation and statistical study, totalling \$90,262; 2) Mining Safety and Health Administration funds for mine safety training, totaling \$34,111 each year. The remainder of federal funds are employment and training council grants, unemployment insurance administrative tax, and funds from the National Occupational Information Coordinating Committee (NOICC) and the Bureau of Labor Statistics.

HUMAN RIGHTS COMMISSION

<u>Budget Item</u>	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	9.84	9.00	9.00	9.00	.00
Personal Services	270,432	264,389	263,415	263,580	-1.46%
Operating Expenses	125,943	94,819	111,928	112,036	1.45%
Equipment	6,512	0	5,600	4,512	55.28%
Total Program	\$402,887	\$359,208	\$380,943	\$380,128	-.14%
<u>Fund Sources</u>					
General Fund	259,440	256,508	284,643	283,828	10.18%
Federal Revenue Fund	143,447	102,700	96,300	96,300	-21.76%
Total Funds	\$402,887	\$359,208	\$380,943	\$380,128	-.14%

Program Description

The Human Rights Division is responsible for enforcement of the Montana Human Rights Act and the Governmental Code of Fair Practices through investigations, conciliation, hearings, and education. This division consists of two functions: 1) the Human Rights Commission, which is administratively attached to the department and is responsible for enforcing laws which prohibit discrimination in employment, housing, public accommodations, financing and credit transactions, insurance, education, and government services; and 2) Human Rights Outreach, which educates the public about laws prohibiting discrimination to promote voluntary compliance.

Current Level Budget

The Human Rights Commission budget decreases 0.1 percent over the biennia, primarily due to discontinuation of a federal fair housing grant in fiscal 1991. The grant funded 0.84 FTE and \$44,968 in total expenditures, which are not continued in the 1993 biennium.

Personal services decrease 1.5 percent due to elimination of the federal grant, vacancy savings in fiscal 1990 and continuation of the 1991 pay plan in the

1993 biennium. Personal services in the 1993 biennium are lower than the fiscal 1991 appropriated level due to staff turnover and replacement at lower salaries.

Operating expenses increase 1.5 percent primarily due to additional microfilm service charges, indirect charges, and filing fees. This reduction is partially offset by the elimination of \$19,732 in fair housing grant expenditures. Equipment includes office and computer equipment.

Federal funds decrease over the biennia due to elimination of the fair housing grant and a projected decrease in federal case reimbursement. All cases heard by the commission fall under state law and are therefore eligible to be funded with general fund. However, in some instances, the cases are also covered by federal law. In this event, the commission is entitled to a reimbursement from either the Equal Employment Opportunity Commission (EEOC) or the federal Department of Housing and Urban Development (HUD). The commission expended \$98,477 of these funds in fiscal 1990. The LFA current level includes \$96,300 each year of the 1993 biennium. This decrease in federal revenue causes general fund to increase by 10.2 percent over the biennia.

WORKERS' COMPENSATION JUDGE

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	8.00	8.00	8.00	8.00	.00
Personal Services	230,916	251,322	251,157	250,308	3.99%
Operating Expenses	81,232	71,214	94,944	96,093	25.31%
Equipment	<u>2,770</u>	<u>0</u>	<u>4,537</u>	<u>2,055</u>	<u>137.98%</u>
Total Program	\$314,918	\$322,536	\$350,638	\$348,456	9.67%
<u>Fund Sources</u>					
State Revenue Fund	<u>314,918</u>	<u>322,536</u>	<u>350,638</u>	<u>348,456</u>	<u>9.67%</u>
Total Funds	\$314,918	\$322,536	\$350,638	\$348,456	9.67%

Program Description

The Workers' Compensation Court provides a forum for Montana's employees and the insurance industry to resolve disputes arising out of work-related injuries and occupational disease. The court is attached to the department for administrative purposes.

Current Level Budget

As part of the reorganization of DOLI and the State Fund, the Workers' Compensation Court was transferred from the Department of Administration to DOLI. The increase in the court's current level budget of 9.7 percent over the biennia is primarily due to increased operating expenses resulting from the transfer.

Personal services increase 4.0 percent due to vacancy savings in fiscal 1990 and continuation of the fiscal 1991 pay plan increase in the 1993 biennium.

Operating expenses increase 25.3 percent in the 1993 biennium over the 1991 biennium primarily because actual fiscal 1990 expenditures reflect only six months of additional costs due to the

reorganization and the fiscal 1991 appropriation includes no additional costs. These additional costs include: 1) indirect assessments to fund the court's share of Centralized Services costs, which total \$17,412 in fiscal 1992 and \$17,414 in fiscal 1993, compared with a total expenditure of \$8,334 in fiscal 1990; 2) photocopier rent totaling \$1,700 each year of the 1993 biennium compared to a fiscal 1990 cost of \$991, as the court shared copiers in the Department of Administration; and 3) courtroom rental costs. The court holds trials four times a year in three communities (Billings, Helena, and Missoula) and rents courtrooms for this purpose. In fiscal 1990, trials were held in Billings only and totalled \$656. With the addition of Missoula and Helena beginning July 1, 1990, these costs are expected to be \$2,700 each year, which is included in the LFA current level.

Equipment includes computer equipment, fax machines, and office equipment.

The Workers' Compensation Court is funded from the workers' compensation state special revenue fund.

JOB TRAINING GRANTS

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	3.00	4.00	.00	.00	-4.00
Personal Services	0	104,477	0	0	-100.00%
Operating Expenses	0	67,443	0	0	-100.00%
Grants	9,312,213	12,364,614	13,940,510	14,158,765	29.63%
Benefits and Claims	82,146	0	0	0	-100.00%
Total Program	\$9,394,359	\$12,536,534	\$13,940,510	\$14,158,765	28.13%
<u>Fund Sources</u>					
General Fund	0	196,362	0	0	-100.00%
Federal Revenue Fund	9,394,359	12,340,172	13,940,510	14,158,765	29.28%
Total Funds	\$9,394,359	\$12,536,534	\$13,940,510	\$14,158,765	28.13%

Program Description

The Job Training Grants program provides job training to economically disadvantaged individuals and individuals with serious barriers to employment. The major activities under this program are: 1) the federal Job Training Partnership Act (JTPA), which distributes federal funds to state agencies and private, non-profit organizations providing job training programs; and 2) the Aid to Dependent Children (AFDC) model programs which provide job training services to AFDC recipients.

Current Level Budget

This program consists of two functions: 1) Job Training Partnership Act (JTSP); and 2) the Displaced Homemakers program.

Job Training Partnership Act funds are granted to various programs around the state to provide employment and training services to persons with barriers to employment. The funds are distributed by two public, non-state, private industry councils (PIC). The appropriation in the Department of Labor and Industry is for pass-through to the councils for distribution.

The Displaced Homemaker program, which provides services to displaced homemakers not eligible for Aid to

Families with Dependent Children (AFDC), totals \$216,000 each year of the biennium.

This program also administered the New Horizons program in fiscal 1990, which provided a child care and incentive program for displaced homemakers not eligible for AFDC. Since the services provided by this program were replaced by the Job Opportunities and Basic Skills (JOBS) program administered in the Department of Social and Rehabilitation Services, the program is eliminated in the 1993 biennium.

The 1989 legislature appropriated 3.0 FTE in fiscal 1990 and 4.0 FTE in fiscal 1991 to administer job training programs for AFDC recipients. However, the Department of Social and Rehabilitation Services (SRS) assumed administration of these programs and no FTE were hired or funds expended in DOLI. The FTE are not continued in the 1993 biennium.

Benefits and claims are payments to JTPA program participants for supportive services (such as transportation) to make them more employable. Because the level of these payments is not known in advance, they are included as part of the total grant allocation in fiscal 1991 through 1993.

General fund in fiscal 1991 consisted of match projected to be needed for federal job training programs for AFDC recipients. However, the match was met

JOB TRAINING GRANTS

in the Department of Social and Rehabilitation Services due to its assumption of the administration of those programs.

All JTPA grants are funded with federal JTPA funds. Displaced homemaker grants were funded with unemployment insurance administrative tax.

Executive Budget Modifications

Federal Economic Dislocated Worker Adjustment and Assistance Act/Trade Adjustment Assistance (EDWAA/TAA) Grants

The Executive Budget includes authority to spend \$596,435 in fiscal 1992 and \$664,793 in fiscal 1993 of federal funds as grant payments to EDWAA/TAA program participants for training and/or sup-

portive service costs. Financial assistance to program participants is required by both the Economic Dislocated Worker Adjustment and Assistance Act and the Trade Act. The program was begun via budget amendment in fiscal 1991. Funds to administer the program are requested in the Job Service Division.

Project Work Program

The Executive Budget includes \$360,000 each year of unemployment insurance administrative tax to match anticipated grants from the Department of Social and Rehabilitation Services (SRS) to operate Project Work programs (PWP). The Executive Budget also requests a language appropriation to allow SRS to transfer federal PWP grant authority to the Department of Labor and Industry.

COMPARISON OF EXECUTIVE AND LFA CURRENT LEVELS

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Budget Item	Executive Current Level		LFA Current Level		Executive Over (Under) LFA
	Fiscal 1992	Fiscal 1993	Fiscal 1992	Fiscal 1993	
FTE	892.70	891.95	880.20	879.45	12.50
Personal Services	23,205,171	23,165,281	22,907,917	22,870,124	592,411
Operating Expenses	14,660,682	15,314,565	14,175,465	14,978,592	821,190
Equipment	213,058	167,622	212,904	167,468	308
Local Assistance	35,000	35,000	35,000	35,000	0
Grants	0	0	16,000	16,000	(32,000)
Benefits and Claims	285,416,749	298,051,332	298,258,329	315,500,223	(30,290,471)
Transfers	0	0	1,259,388	1,259,388	(2,518,776)
Total Agency	\$323,530,660	\$336,733,800	\$336,865,003	\$354,826,795	(\$31,427,338)
<u>Fund Sources</u>					
General Fund	78,403,640	81,692,182	85,351,428	89,730,855	(14,986,461)
State Revenue Fund	11,580,563	11,785,943	12,889,008	13,196,728	(2,719,230)
Federal Revenue Fund	231,930,871	241,508,361	237,259,475	250,544,937	(14,365,180)
Proprietary Fund	1,615,586	1,747,314	1,365,092	1,354,275	643,533
Total Funds	\$323,530,660	\$336,733,800	\$336,865,003	\$354,826,795	(\$31,427,338)

Executive Budget Comparisons

The 1993 biennium LFA current level budget exceeds the current level Executive Budget by \$31.4 million. While the Executive Budget is higher than the LFA current level in personal services and operations, it is significantly lower in several major benefit areas. Part of the difference between the Executive Budget and LFA current level is that the Executive Budget transfers \$5.0 million in general fund medicaid match for inpatient psychiatric hospital services to the Department of Family Services (DFS). When adjusted for this transfer, the current level Executive Budget is \$26.4 million below the LFA current level.

The LFA general fund current level is \$15.0 million above the Executive Budget. Three factors affect the general fund comparison: 1) the Executive Budget's transfer of \$5.0 million in general fund medicaid match to DFS; 2) higher LFA revenue projections for the 12 mill welfare tax used in lieu of general fund as state medicaid match; and 3) the Executive Budget's allocation of proprietary funds in lieu of general fund medicaid match. When adjusted for these factors, the LFA general fund current level is \$12.2 million higher than the Executive Budget.

Table A shows the major differences between the current level Executive Budget and LFA current level during the 1993 biennium.

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Table A
Executive Budget Over/(Under)
LFA Current Level Budget
1993 Biennium

<u>Expenditure Type</u>	<u>General Fund</u>	<u>Total Amount</u>
Personal Services	\$ 113,256	\$ 592,411
Medicaid Utilization Contract	193,457	490,000
Medicaid Cost Audits	50,867	128,838
SEARCHS Computer Development		634,360
D of A Network Increases	249,981	595,390
General Assistance Benefits	960,000	960,000
Aid to Families with Dependent Children	(1,858,959)	(7,017,378)
Medicaid Nursing Care Benefits	(2,402,698)	(8,524,928)
Inpatient Psychiatric Transfer to DFS*	(5,040,670)	(5,040,670)
Medicaid Primary Care Benefits	(2,960,665)	(8,252,093)
State Medical Benefits	(6,502,028)	(6,502,028)
Specialized Service Support Organization	(265,398)	(340,000)
Funding Differences	2,153,246	
Inflation	(156,501)	(588,380)
Other Operations and Benefits	<u>479,651</u>	<u>1,437,140</u>
Total Difference	\$ (14,986,461)	\$ (31,427,338)

* The Executive Budget includes this amount in the Department of Family Services.

Personal Services

LFA current level personal services are \$592,411 below the current level Executive Budget due to the elimination of 12.5 FTE which were vacant longer than six consecutive months as of September 1990.

Operating Expenses

When adjusted for expenditures recorded as benefits in the Executive Budget, which are recorded in operations in the LFA current level, the Executive Budget operating expenses are \$1.4 million above LFA current level. The Executive Budget includes the following expenditures which are not included in the LFA current level: 1) \$490,000 to contract for utilization review of medicaid inpatient psychiatric services; 2) \$128,838 more for medicaid cost audits of hospitals and nursing homes; 3) \$634,360 to begin contract development of the computer system for

Enforcement and Recovery of Child Support (SEARCHS); and 4) \$595,390 to pay additional costs for the proposed Department of Administration computer network. In addition, the different base used in the Executive Budget to develop the current level budget (fiscal 1991 appropriated versus fiscal 1990 for the LFA current level) increases the Executive Budget operating expenses slightly over current level. Higher Executive Budget operating expenses are partially offset by lower inflationary increases (\$588,380 less) than the LFA current level inflation.

Benefits

The most significant difference between the Executive Budget and LFA current level is in benefits. In general, the Executive Budget projects lower AFDC caseloads, much lower utilization in the state medical program, and lower nursing home utilization rates in the medicaid program. In addition, the Executive

DEPARTMENT OF SOCIAL & REHABILITATION SERVICES

Budget includes \$5.8 million in savings from medicaid cost containment which are not included in the LFA current level. Other factors affecting benefit comparisons are expenditures recorded as benefits in the Executive Budget but recorded as transfer, grant, or operational expenditures in the LFA. Major differences in benefits between the Executive Budget and the LFA current level are discussed in the Family

Assistance and Medical Assistance program narratives.

In addition to the current level biennial budget of \$660.3 million, the Executive Budget contains \$70.2 million in modified budget requests for the Department of Social and Rehabilitation Services. These budget modifications are listed in the following agency narrative and discussed in more detail in the program narratives.

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<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	901.72	921.72	880.20	879.45	-42.27
Personal Services	20,277,393	24,007,303	22,907,917	22,870,124	3.37%
Operating Expenses	13,209,894	15,322,495	14,175,465	14,978,592	2.18%
Equipment	836,433	271,880	212,904	167,468	-65.68%
Local Assistance	11,168	35,000	35,000	35,000	51.62%
Grants	0	0	16,000	16,000	.00%
Benefits and Claims	265,643,478	285,023,198	298,258,329	315,500,223	11.46%
Transfers	<u>1,176,715</u>	<u>0</u>	<u>1,259,388</u>	<u>1,259,388</u>	<u>114.05%</u>
Total Agency	\$301,155,081	\$324,659,876	\$336,865,003	\$354,826,795	10.53%
<u>Fund Sources</u>					
General Fund	78,280,597	83,901,283	85,351,428	89,730,855	7.95%
State Revenue Fund	10,777,681	11,639,225	12,889,008	13,196,728	16.37%
Federal Revenue Fund	211,125,482	227,828,555	237,259,475	250,544,937	11.13%
Proprietary Fund	<u>971,321</u>	<u>1,290,813</u>	<u>1,365,092</u>	<u>1,354,275</u>	<u>20.21%</u>
Total Funds	\$301,155,081	\$324,659,876	\$336,865,003	\$354,826,795	10.53%

Agency Description

The Department of Social and Rehabilitation Services (SRS), provided for in Section 2-15-22, MCA, and Title 53, MCA, is responsible for a broad range of human services including the state's welfare programs, medical assistance and care, and training for persons with disabilities. Department staff: 1) provide services to assist blind and partially blind persons to become gainfully employed; and 2) promote the restoration of handicapped Montanans to their fullest physical, mental, vocational, and social abilities. The department's mission statement is "Working Together To Empower Montanans", and its policies are designed to encourage people to become self-sufficient and to assist those who cannot do so.

Current Level Budget

Current level FTE are reduced by 42.27 positions due to: 1) a major reorganization of the agency that resulted in the elimination of several positions; 2) completion of the development stage of The Economic Management System (TEAMS) which reduced the need for agency employees; 3) the conversion of certain professional health services currently provided by aggregate FTE to contracted services; 4) the elimination in fiscal 1990 of 1.0 FTE and the use of personal service funds to purchase equipment; 5) elimination of positions currently employed under a federal pilot program which is terminating; and 6) elimination of all positions vacant longer than six consecutive months as of September 1990. Table 1 depicts the number of FTE eliminated, the annualized personal service savings, and the reason for elimination.

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Table 1
Personal Service
Reductions

Reason <u>Eliminated</u>	FTE <u>Reduced</u>	Annual <u>Savings</u>
Reorganization	9.99	\$ 236,031
TEAMS	14.20	376,776
Conversion	2.58	361,853
Equip. Purchase	1.00	17,783
Pilot Program	2.00	46,822
6-Month Vacant	<u>12.50</u>	<u>296,409</u>
Total	42.27	\$1,335,674

Personal service expenditures increase approximately \$2.6 million per year over the fiscal 1990 level. Factors contributing to personal service expenditure increases are: 1) \$1.8 million in vacancy savings occurred in fiscal 1990 but are not budgeted in the 1993 biennium; 2) the Child Support Enforcement program began fiscal 1990 with 51.0 FTE which increased to 121.0 FTE in fiscal 1991; 3) employee pay plan increases in fiscal 1991 raise 1993 biennium salaries above the fiscal 1990 salary level; 4) position upgrades totaling \$209,595 were approved during the 1991 biennium; and 5) the 1989 legislature authorized 20.0 additional FTE in various programs in fiscal 1991.

Operating expenses increase approximately \$966,000 in fiscal 1992 and \$1.77 million in fiscal 1993 over the fiscal 1990 level primarily because: 1) more than \$360,000 has been moved from personal services to contracted services as a result of eliminating the 2.58 aggregate FTE shown in Table 1; and 2) two programs authorized by the 1989 legislature (the Child Support Enforcement program and the program providing specialized communication services to the handicapped) will oper-

ate at full capacity during the 1993 biennium. The increase in operating expenses from fiscal 1992 to 1993 reflects a full year's utilization of the state's mainframe computer by the TEAMS project the second year of the biennium.

Annual equipment expenditures decrease over \$600,000 from the fiscal 1990 level due to large equipment expenditures occurring in fiscal 1990 which will not occur during the next biennium. (Approximately \$515,000 was spent on equipment purchases for the Child Support Enforcement program and TEAMS project in fiscal 1990.) Local assistance expenditures during the 1993 biennium are based on the 1991 appropriated level, which is approximately \$24,000 higher than fiscal 1990 expenditures. Benefit expenditures of \$16,000 in fiscal 1990 are moved to the grant category during the 1993 biennium to more accurately reflect the purpose of the expenditure.

Benefit expenditures increase approximately \$32.6 million in fiscal 1992 and \$49.9 million in fiscal 1993 above the fiscal 1990 level. Contributing to this increase are: 1) large projected increases in both caseload and recipient utilization in the state's medicaid program; and 2) approximately \$2.4 million in annual expenditures during the 1993 biennium for the Specialized Service Support Organization (SSSO) approved by the 1989 legislature, for which expenditures were not made in fiscal 1990. Current level benefit amounts do not include fee increases for providers or increases in payment amounts per welfare recipient. Table 2 shows total expenditures by benefit type for fiscal year 1990, projected expenditures for the 1993 biennium, and the average annual percentage change between fiscal 1990 and fiscal 1993. Table 3 shows the portion of the benefits supported by the general fund.

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Table 2
Total Current Level Benefits
1993 Biennium

<u>Benefits</u>	<u>Total Fiscal 1990</u>	<u>Total Fiscal 1992</u>	<u>Total Fiscal 1993</u>	<u>Annual Change FY90-FY93</u>
Financial Assistance	\$54,224,648	\$54,870,233	\$54,870,233	0.40%
Medical Assistance	183,780,182	212,771,098	230,012,992	7.77%
Vocational Rehabilitation	5,562,258	5,850,051	5,850,051	1.70%
Visual Services	671,489	616,784	616,784	-2.79%
Develop. Disabilities	21,317,382	24,150,163	24,150,163	4.25%
Other	<u>87,519</u>			<u>NA</u>
Total	\$265,643,478	\$298,258,329	\$315,500,223	5.90%

Table 3
General Fund Current Level Benefits
1993 Biennium

<u>Benefits</u>	<u>G. Fund Fiscal 1990</u>	<u>G. Fund Fiscal 1992</u>	<u>G. Fund Fiscal 1993</u>	<u>Annual Change FY90-FY93</u>
Financial Assistance	\$14,207,352	\$13,586,031	\$13,512,979	-1.66%
Medical Assistance	47,583,071	52,709,759	56,911,809	6.15%
Vocational Rehabilitation	728,062	816,459	816,459	3.89%
Visual Services	154,983	151,456	151,456	-0.76%
Develop. Disabilities	<u>7,692,047</u>	<u>8,936,674</u>	<u>9,093,134</u>	<u>5.74%</u>
Total	\$70,365,515	\$76,200,379	\$80,485,837	4.58%

Transfers increase from fiscal 1990 due to the transfer of \$87,519 recorded as benefits in 1990 to the more appropriate expenditure category of transfers.

General fund expenditures increase \$7.1 million in fiscal 1992 and \$11.5 million in fiscal 1993 over the fiscal 1990 level due largely to: 1) rapidly escalating medicaid costs; 2) a decrease in the federal match rate from approximately 85 percent to 55 percent as the TEAMS project moves from the developmental to operational stage; and 3) new general fund expenditures of approximately \$916,000 each year for the state's share of funding the SSSO

authorized by the 1989 legislature. These increases are partially offset by projected decreases in general assistance and state medical expenditures, which are funded 100 percent with general fund.

State revenues increase approximately \$2.1 million in fiscal 1991 and \$2.4 million in fiscal 1993 above the fiscal 1990 level primarily due to: 1) a significant increase in taxable valuation in the 12 state-assumed welfare counties; and 2) full implementation during the 1993 biennium of the telecommunication program funded by the telephone tax enacted by the 1989

DEPARTMENT OF SOCIAL & REHABILITATION SERVICES

legislature. Federal revenues increase \$26.1 million in fiscal 1992 and \$39.4 million in fiscal 1993 above the fiscal 1990 level due largely to escalating medicaid costs and a federal medicaid participation rate which increases in

increments from 71.17 percent in fiscal 1990 to 71.9 percent in fiscal 1993. The increase in proprietary revenues reflects the growth of the Child Support Enforcement program to the level authorized by the 1989 legislature.

Executive Budget Modifications

1993 Biennium

<u>Budget Modifications</u>	<u>FTE FY92</u>	<u>FTE FY93</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
1) Statewide JOBS Program			\$1,706,734	\$3,574,002	\$5,280,736
2) Food Stamp Expansion			87,500	192,000	279,500
3) Child Support Enforcement				753,279	753,279
4) Kids Count Initiative			2,864,417	1,747,965	4,612,382
5) Medicaid Rate Increases			9,104,794	23,225,679	32,330,473
6) Medicaid Waiver Expansion			175,022	446,043	621,065
7) Health Clinic Expansion			36,653	93,347	130,000
8) Hospital Rate Study			152,780	152,780	305,560
9) Res. Psychiatric Treatment				9,006,383	9,006,383
10) OBRA-1987 DD Treatment			644,600	762,470	1,407,070
11) Medical Cost Containment			330,600	30,600	361,200
12) Nurse Aide Testing			172,800	172,800	345,600
13) TEAMS Operations			923,977		923,977
14) SEARCHS Development				5,513,120	5,513,120
15) TDD Implementation	1.0	1.0		139,383	139,383
16) JTPA Federal Funding				80,000	80,000
17) DD Program Expansion	5.0	8.0	2,986,163	3,699,778	6,685,941
18) Increased Medicaid Funding				1,000,000	1,000,000
19) Montana Youth Initiative				172,000	172,000
20) Chapter I Federal Funding				180,000	180,000
21) DDPAC Federal Funding				84,981	84,981
Total	6.0	9.0	\$19,186,040	\$51,026,610	\$70,212,650

The executive is requesting the budget modifications listed in the above table.

Each request is discussed in more detail in program level narrative.

FAMILY ASSISTANCE

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	39.25	39.25	36.25	36.25	-3.00
Personal Services	986,112	1,251,949	1,159,643	1,159,892	3.64%
Operating Expenses	1,724,486	1,592,328	1,881,919	1,881,315	13.46%
Equipment	91,563	92,195	72,195	72,195	-21.42%
Benefits and Claims	54,224,648	62,632,937	54,870,233	54,870,233	-6.09%
Transfers	<u>1,176,715</u>	<u>0</u>	<u>1,147,955</u>	<u>1,147,955</u>	<u>95.11%</u>
Total Program	\$58,203,524	\$65,569,409	\$59,131,945	\$59,131,590	-4.45%
Fund Sources					
General Fund	14,951,872	18,030,313	14,356,658	14,283,743	-13.17%
State Revenue Fund	702,303	650,939	721,754	716,906	6.31%
Federal Revenue Fund	<u>42,549,349</u>	<u>46,888,157</u>	<u>44,053,533</u>	<u>44,130,941</u>	<u>-1.40%</u>
Total Funds	\$58,203,524	\$65,569,409	\$59,131,945	\$59,131,590	-4.45%

Program Description

The Family Assistance program is responsible for the coordination and management of Montana's public assistance programs. Program staff develop policy, coordinate with federal agencies, and provide administrative supervision of grant and benefit programs, including Aid to Families with Dependent Children (AFDC), General Assistance (GA), food stamps, and weatherization and Low-Income Energy Assistance Block Grants (LIEAP). The Family Assistance program is statutorily authorized in Title 53, Chapter 2; Title 53, Chapter 3; Title 53, Chapter 4, Part 2; and Sections 53-4-101, and 53-6-133, MCA.

Current Level Budget

Current level FTE are reduced by 3 positions due to: 1) 1.0 FTE eliminated as a result of agency reorganization; 2) 1.0 FTE eliminated as the TEAMS project moves from the developmental to operational stage; and 3) 1.0 FTE eliminated because it was vacant longer than six consecutive months as of September 1990. Personal service expenditures increase approximately \$174,000 per year over the fiscal 1990 level due to: 1) vacancy savings which occurred in fiscal 1990 but is not

budgeted during the 1993 biennium; and 2) employee pay increases granted in fiscal 1991 which are continued in the 1993 biennium.

Operating expenses increase approximately \$157,000 per year over the fiscal 1990 level. However, approximately \$264,000 recorded as benefits in fiscal 1990 is moved to operations in the 1993 biennium to more accurately reflect the purpose of the expenditures. When adjusted for this accounting change, operating expenses in the 1993 biennium actually decrease more than \$100,000 per year from the fiscal 1990 level due mainly to the elimination of one-time contracted services expenditures in fiscal 1990. Equipment is included at the agency request and decreases approximately \$19,000 per year below the fiscal 1990 expenditure level.

When adjusted for expenditures recorded as benefits in fiscal 1990 (which are moved to operations during the 1993 biennium) annual benefit expenditures increase approximately \$909,000 per year above the fiscal 1990 level. Benefit projections do not include fee increases for providers or increases in payment amounts per recipient. Table 4 shows total benefit expenditures by type for fiscal 1990 and projected benefit expenditures for the 1993 biennium.

FAMILY ASSISTANCE

Table 5 shows the portion of the benefits supported by the general fund.

Table 4
Current Level Benefits
1993 Biennium

<u>Benefits</u>	<u>Total Fiscal 1990</u>	<u>Total Fiscal 1992</u>	<u>Total Fiscal 1993</u>	<u>Annual Change FY90-FY93</u>
AFDC	\$38,218,044	\$39,400,000	\$39,400,000	1.02%
LIEAP	7,949,382	7,388,100	7,388,100	-2.41%
General Assistance*	2,973,159	2,133,000	2,133,000	-10.48%
Weatherization	1,758,205	2,387,738	2,387,738	10.74%
General Assistance Work	307,064	526,111	526,111	19.66%
Community Services Grants	1,079,235	1,060,664	1,060,664	-0.58%
Homeless Grants	102,409	81,000	81,000	-7.52%
Emergency Shelter	59,022	170,000	170,000	42.28%
AFDC Day Care	1,287,323	1,600,000	1,600,000	7.52%
General Assistance Burial	145,286	123,620	123,620	-5.24%
Other	345,519			NA
Total	\$54,224,648	\$54,870,233	\$54,870,233	0.40%

*Includes non-resident general assistance.

Table 5
Current Level General Fund Benefits
1993 Biennium

<u>Benefits</u>	<u>G. Fund Fiscal 1990</u>	<u>G. Fund Fiscal 1992</u>	<u>G. Fund Fiscal 1993</u>	<u>Annual Change FY90-FY93</u>
AFDC	\$10,330,310	\$10,424,506	\$10,354,494	0.08%
General Assistance	2,973,159	2,133,000	2,133,000	-10.48%
General Assistance Work	271,632	452,265	452,265	18.52%
AFDC Day Care	365,434	452,640	449,600	7.15%
General Assistance Burial	145,286	123,620	123,620	-5.24%
Other	121,531			NA
Total	\$14,207,352	\$13,586,031	\$13,512,979	-1.66%

Benefits funded solely with federal funds are, for the most part, projected at the fiscal 1991 appropriated level because of uncertainty regarding the level of federal funding available during the 1993 biennium. General

assistance and AFDC benefits are projected based on both historical and recent caseload trends. Table 6 shows general assistance and AFDC monthly caseloads from July 1988 through September 1990.

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Table 6
General Assistance and AFDC Caseloads
Fiscal 1989-1991

Month	---General Assistance---			-----AFDC-----		
	Fiscal 1989	Fiscal 1990	Fiscal 1991	Fiscal 1989	Fiscal 1990	Fiscal 1991
July	1,748	1,606	656	9,394	9,048	9,675
August	1,751	1,562	662	9,290	9,254	9,523
September	1,776	1,488	667	9,154	9,056	9,382
October	1,724	1,424		9,015	9,191	
November	1,745	1,428		8,987	9,298	
December	1,923	1,364		9,286	9,490	
January	2,017	1,285		9,358	9,589	
February	2,028	1,086		9,484	9,839	
March	2,101	1,005		9,682	9,935	
April	2,018	930		9,843	10,104	
May	1,792	801		9,533	9,927	
June	<u>1,692</u>	<u>742</u>		<u>9,302</u>	<u>9,868</u>	
Monthly Average	1,860	1,227	662	9,361	9,550	9,527

General assistance caseloads remained at a fairly constant level during fiscal 1989 but began to decline in fiscal 1990 due to several changes in welfare laws made by the 1989 legislature. Through September 1990, fiscal 1991 monthly caseloads have averaged only 662 but are expected to increase during the winter months as they did in fiscal 1989. In the LFA current level, the average monthly general assistance caseload for fiscal 1991 is projected at 743 and is estimated to remain relatively constant throughout the 1993 biennium. General assistance monthly payment levels during the 1993 biennium are calculated at the September 1990 average payment of \$235.55.

AFDC average monthly caseloads were higher during the first three months of fiscal 1991 than they were in either fiscal 1989 or 1990. AFDC caseloads also increased slightly during the winter months in fiscal 1989 and 1990 and are expected to do the same in fiscal 1991. While the Executive Budget projects a decrease in AFDC caseloads during the 1993 biennium due to federal welfare reform provisions, the LFA current level projects that the average

monthly AFDC caseload for fiscal 1991 will be 9,591 and that the caseload will remain relatively constant throughout the 1993 biennium. AFDC monthly payment levels during the 1993 biennium are calculated at the September 1990 average payment of \$342.34. Although fully implemented provisions of federal welfare reform are expected to limit the historical growth of AFDC caseloads, AFDC day-care expenditures will increase to cover the costs of providing transitional day-care to AFDC recipients who are enrolled in training programs or who become employed. (This provision was effective April 1, 1990.)

The general assistance job search, training, and work program (Senate Bill 128) increases above the fiscal 1990 expenditure level to reflect full implementation of the act's provisions during the 1993 biennium. (The major provisions of the act were not effective until January 1990). The program's expenditure levels are less than the 1991 appropriation because of decreased general assistance caseloads. General assistance burial benefits are reduced from the fiscal 1990 expenditure level to the fiscal 1991 appropriated level

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due to the reduced number of general assistance recipients.

Transfer expenditures (funds transferred to the state Department of Labor and Industry for job search and training assistance on behalf of welfare recipients) decrease slightly from the fiscal 1990 level due to one-time transfers made in 1990 which will not occur during the 1993 biennium.

General fund expenditures in this program decrease approximately \$632,000 per year from the fiscal 1990 level largely due to projected decreases in general assistance, which is funded 100 percent with general fund. State revenue funds (contributed by non-assumed counties as state match for AFDC benefit payments made within the county) increase approximately \$17,000 per year over the fiscal 1990 level due to projected increases in AFDC benefit expenditures over the fiscal 1990 level. Federal funding increases approximately \$1.5 million per year above the fiscal 1990 level primarily due to: 1) increases in AFDC benefits over the fiscal 1990 level, the majority of which are funded with federal revenue; and 2) a federal funding rate for AFDC benefits which increases from 71.17 percent in fiscal 1990 to 71.9 percent in fiscal 1993.

Issues

AFDC

The AFDC program is the state's most costly financial benefit program. Growing numbers of AFDC recipients have increased both welfare and medicaid costs because AFDC recipients are automatically eligible for medicaid benefits. When the state establishes eligibility for AFDC assistance, it is making a decision that has more impact on medicaid costs than on welfare costs since the state spends more providing medical services to AFDC recipients than it does providing financial assistance to them. During fiscal 1990, the state spent \$38.2 million for AFDC financial assistance compared to \$56.5 million spent on medical services for AFDC related medicaid recipients.

Further, while AFDC assistance payment amounts per recipient can be controlled by the state, medicaid costs per AFDC recipient can range from hundreds to thousands of dollars, depending upon the physical condition of the recipient and how often he/she uses medicaid services. Therefore, AFDC eligibility criteria established by the state and the effective application of that criteria at the local level are critical to any welfare and medicaid cost containment efforts.

According to the latest data available from the United States Bureau of the Census, Montana has more AFDC recipients per 1,000 population than other states in the region. Table 7 shows the number of AFDC recipients per 100,000 population by state and the percentage for each state to the regional average.

Table 7
AFDC Recipients by State
As of December, 1988

<u>State</u>	<u>Recipients Per 1,000 Population</u>	<u>% Of Region</u>
Montana	34.78	132.32%
Colorado	28.54	108.57%
Wyoming	27.89	106.10%
South Dakota	26.84	102.09%
Utah	24.21	92.11%
North Dakota	22.73	86.46%
Idaho	<u>16.72</u>	<u>63.59%</u>
Average	26.29	100.00%

Given Montana's large number of AFDC recipients compared to other states in the region, the legislature may wish to review existing AFDC financial eligibility criteria and request that the agency report on how that eligibility is applied at the community level to assure that persons with adequate financial resources are not granted AFDC eligibility.

FAMILY ASSISTANCE

Executive Budget Modifications

Statewide JOBS Program

The federal Family Support Act of 1988 requires the state to operate a Job Opportunities and Basic Skills (JOBS) program. The program has been implemented in selected counties during the 1991 biennium. The Executive Budget includes \$5,280,736 (of which \$1,706,734 is state general fund) to implement the program statewide during the 1993 biennium.

Food Stamp Job Search Support

The Food Stamp Job Search program is a federally mandated employment and training program for food stamp recip-

ients. The program is federally funded except for a \$25 monthly payment by the state to each recipient for supportive services. The Executive Budget includes \$87,500 in general fund during the 1993 biennium to provide supportive services to food stamp recipients.

Food Stamp Employment and Training

Federal incentive funding is available to Montana based on the number of placements made in the Food Stamp Job Search program. The department received \$96,000 in incentive funding during federal fiscal 1990. The Executive Budget includes \$192,000 of federal incentive funding during the 1993 biennium.

ELIGIBILITY DETERMINATION PROGRAM

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	406.90	408.90	394.70	394.70	-14.20
Personal Services	8,697,641	9,664,285	9,462,861	9,453,004	3.02%
Operating Expenses	<u>169,186</u>	<u>137,761</u>	<u>175,987</u>	<u>175,985</u>	<u>14.67%</u>
Total Program	\$8,866,827	\$9,802,046	\$9,638,848	\$9,628,989	3.21%
<u>Fund Sources</u>					
General Fund	2,244,713	2,616,059	2,510,483	2,523,823	3.57%
State Revenue Fund	2,186,855	2,480,997	2,497,439	2,494,901	6.95%
Federal Revenue Fund	<u>4,435,259</u>	<u>4,704,990</u>	<u>4,630,926</u>	<u>4,610,265</u>	<u>1.10%</u>
Total Funds	\$8,866,827	\$9,802,046	\$9,638,848	\$9,628,989	3.21%

Program Description

The Eligibility Determination program is responsible for determining initial and on-going recipient eligibility for benefit programs, including AFDC, medicaid, food stamps, energy assistance, and state and county financial and medical assistance. The program includes funding for county welfare eligibility and clerical staff and for county welfare directors' salaries and travel.

1990 level due to inflationary increases in travel.

This program is funded by a combination of general fund, state revenue (reimbursement from non-assumed counties), and federal funds (a mixture of food stamps, welfare, and medicaid funding). Charges are assessed against each funding source based on the Random Moment Time Study conducted by the agency. Current level funding for the 1993 biennium is based on the funding mix submitted by the agency.

Current Level Budget

Current level FTE are reduced 14.2 positions due to: 1) 2.0 FTE eliminated as a result of agency reorganization; 2) 7.7 FTE eliminated as the TEAMS project moves from the developmental to operational stage; and 3) 4.5 FTE eliminated because they were vacant longer than six consecutive months as of September 1990. Personal service expenditures increase approximately \$760,000 per year over the fiscal 1990 level because: 1) vacancy savings occurred in fiscal 1990 but are not budgeted during the 1993 biennium; 2) employee pay increases granted in fiscal 1991 are included in the 1993 biennium; and 3) 2.0 additional FTE were approved for fiscal 1991 by the 1989 legislature and are continued in the 1993 biennium. Operating expenses increase approximately \$6,800 per year over the fiscal

Previous Legislative Action

The 1989 legislature approved the addition of 11.9 FTE eligibility technicians to stabilize the number of cases per technician and to handle an increased workload resulting from federal welfare reform. The legislature also permitted the agency to spend from appropriations for the federal Catastrophic Coverage and Welfare Reform Acts to determine eligibility of additional AFDC and general assistance caseloads directly attributable to changes in federal eligibility criteria. The agency was further authorized to contract for eligibility determination services for these additional cases in "non-traditional" settings and is required to report to the Fifty-second Legislature "on the efficiency and cost effectiveness of such an approach to eligibility determination."

ADMINISTRATION & SUPPORT SERVICES

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	53.00	53.00	50.50	50.50	-2.50
Personal Services	1,376,604	1,589,129	1,441,850	1,440,696	-2.81%
Operating Expenses	964,448	873,819	1,099,504	1,106,960	20.03%
Equipment	<u>42,858</u>	<u>99,372</u>	<u>30,464</u>	<u>30,464</u>	<u>-57.16%</u>
Total Program	\$2,383,910	\$2,562,320	\$2,571,818	\$2,578,120	4.12%
<u>Fund Sources</u>					
General Fund	733,344	787,000	695,884	695,973	-8.45%
State Revenue Fund	194,021	222,900	213,026	214,201	2.47%
Federal Revenue Fund	1,388,302	1,540,064	1,587,683	1,592,535	8.60%
Proprietary Fund	<u>68,243</u>	<u>12,356</u>	<u>75,225</u>	<u>75,411</u>	<u>86.90%</u>
Total Funds	\$2,383,910	\$2,562,320	\$2,571,818	\$2,578,120	4.12%

Program Description

The Administration and Support Service program, comprised of the Director's Office and the Support Services Division, is responsible for providing the agency's overall direction for policy development, budgeting, and for coordinating the various human services programs. The administrative organization of the department is established in Sections 2-15-112, 2-15-2201, and 53-2-201, MCA.

level due to: 1) inflationary increases averaging more than \$35,000 per year; 2) inclusion in this program of all insurance and bonds costs which were paid in various other programs in fiscal 1990 (an increase of approximately \$74,000 annually); 3) an increase of approximately \$22,000 annually in legislative audit costs; 4) annual increases of \$16,000 in statewide indirect costs; and 5) elimination of approximately \$8,000 in one-time contracted service costs. Equipment expenditures are included at the agency request.

Current Level Budget

Current level FTE are reduced 2.5 positions due to agency reorganization. Personal service expenditures increase approximately \$65,000 per year over the fiscal 1990 level because: 1) vacancy savings occurred in fiscal 1990 but are not budgeted during the 1993 biennium; and 2) employee pay increases granted in fiscal 1991 are continued in the 1993 biennium.

Operating expenses increase an average \$139,000 annually over the fiscal 1990

This program is funded by a combination of general fund, state revenue (reimbursement from non-assumed counties), and federal funds (a mixture of food stamps, welfare, vocational rehabilitation, and LIEAP funding). Current level funding for the 1993 biennium is based on the funding mix submitted by the agency. An indirect cost allocation plan approved by the federal government is used to determine appropriate funding percentages.

CHILD SUPPORT ENFORCEMENT

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	101.00	116.00	116.00	116.00	.00
Personal Services	1,589,263	2,715,989	2,786,096	2,781,643	29.32%
Operating Expenses	655,785	1,004,553	901,242	938,531	10.81%
Equipment	350,097	0	51,765	6,329	-83.41%
Local Assistance	11,168	35,000	35,000	35,000	51.62%
Total Program	\$2,606,313	\$3,755,542	\$3,774,103	\$3,761,503	18.45%
<u>Fund Sources</u>					
Federal Revenue Fund	1,714,929	2,524,068	2,513,334	2,511,628	18.54%
Proprietary Fund	891,384	1,231,474	1,260,769	1,249,875	18.27%
Total Funds	\$2,606,313	\$3,755,542	\$3,774,103	\$3,761,503	18.45%

Program Description

The Child Support Enforcement program is responsible for establishing, enforcing, and collecting financial support owed by absent parents. Program staff locate absent parents, identify assets, establish paternity, and ensure that absent parents maintain medical health insurance coverage for their dependent children. Activities carried out by program staff are authorized in Title 40, Chapter 5, Part 2, MCA.

Current Level Budget

The 1989 legislature approved a significant expansion in this program. Because this program had not been completed in fiscal 1990, both current level expenditures and funding for this program are included at the level requested by the agency, which approximates the fiscal 1991 appropriated level. Personal service and operational costs increase significantly above the 1990 level, while equipment expenditures decrease because fiscal 1990 expenditures were not representative of ongoing program expenditures as approved by the 1989 legislature.

When the 1989 legislature moved this program from the Department of Revenue, it transferred 51.0 FTE and authorized the program to hire up to 106.0 FTE in

fiscal 1990 and 121.0 FTE in fiscal 1991. The legislature also authorized the agency to contract portions of this program to the private sector. The agency chose to hire additional employees rather than contract for these services. The Executive Budget includes all 121.0 FTE authorized by the legislature but transfers 5.0 FTE to other programs within the agency. In addition to the 121.0 FTE, the Executive Budget includes a budget modification of \$753,279 during the 1993 biennium to contract for additional administrative and clerical employees.

Issues

Revenue to Expenditure Ratios

The Child Support Enforcement program is funded with approximately 66 percent federal funds and 34 percent from an enterprise account into which collections are deposited. The 1989 legislature required the program to: 1) establish an enterprise fund to account for program revenue collections and expenditures; 2) collect revenues during fiscal 1990 of \$1.25 for each \$1.00 expended from the enterprise fund; 3) collect revenues during fiscal 1991 of \$1.69 for each \$1.00 expended from the enterprise fund; and 4) transfer to the general fund any fund balance in excess of \$500,000 in the enterprise account at the end of each fiscal year. The program collected revenues of \$1.7

CHILD SUPPORT ENFORCEMENT

million in fiscal 1990 and spent slightly less than \$1 million, resulting in a revenue-to-expenditure ratio of \$1.71 to \$1.00. At the end of fiscal 1990, the fund balance was \$725,340, of which all but \$500,000 was transferred to the general fund in compliance with legislative direction.

The ratio of revenue collections to expenditures in this account has a direct impact on the state general fund because any fund balance above \$500,000 at fiscal year end must be transferred to the general fund. Because the \$500,000 fund balance was reached in fiscal 1990, all revenue collections in excess of expenditures are deposited in the general fund. If expenditures exceed revenue collections, the account's fund balance will decrease below \$500,000, eliminating transfers of revenue to the general fund.

The Executive Budget, while maintaining expenditures within projected revenues during the 1993 biennium, does not maintain the revenue to expenditure ratio required by the 1989 legislature for fiscal 1991. Table 8 shows actual enterprise account revenues and expenditures in fiscal 1990, projected revenues and expenditures in 1991 and Executive Budget expenditure requests and revenue estimates for the 1993 biennium. (The table does not include \$514,423 from this account included in the Executive Budget as state medicaid match in lieu of general fund.)

Table 8
Child Support Enforcement
Enterprise Account
Revenue and Expenditures

<u>Fiscal Year</u>	<u>Revenue</u>	<u>Expend- itures</u>	<u>Revenue/ Expend. Ratios</u>
1990	\$1,658,215	\$ 971,320	170.72%
1991	1,848,238	1,290,813	143.18%
1992	2,066,911	1,952,985	105.83%
1993	2,397,673	1,774,919	135.09%

The Executive Budget's 1993 biennium revenue-to-expenditure ratios for this account are less than the 169 percent ratio required by the 1989 legislature for fiscal 1991. While it is clear that the 1989 legislature expected the program to generate more in revenue collections than it spent, it is unclear whether the program was expected to continue the \$1.69 to \$1.00 recovery ratio required for fiscal 1991 beyond the current biennium, or whether the \$500,000 fund balance provision was to continue. The legislature may wish to specify a revenue to expenditure ratio and a minimum fund balance for this account during the 1993 biennium.

Program Size

Because this program has expanded so rapidly, little data exists for determining optimal staffing or expenditure levels or for projecting future revenue collections. The Executive Budget includes 121.0 FTE during the 1993 biennium and additional funding to increase staffing levels through contracted services. Also requested is a biennial appropriation of \$6.1 million (of which \$687,000 is from the enterprise account) to develop a computer system for child support enforcement activities. (See "Issues" in the Office of Management, Analysis, and Systems program narrative.) In total, the Executive Budget includes \$8.6 million in fiscal 1992 and \$6.2 million in fiscal 1993, compared to actual expenditures of \$2.7 million in fiscal 1990 for all child support enforcement activities within the agency.

Due to the direct impact this program's operations may have on the state general fund, the program's rapid expansion to date and the lack of historical data, the legislature may wish to request that the agency provide a report detailing long-term revenue collection estimates and staffing and expenditure levels required to operate this program in the most cost-effective manner.

CHILD SUPPORT ENFORCEMENT

Executive Budget Modification

Contracted Employees

The Executive Budget includes \$753,279 during the 1993 biennium to contract for additional administrative and clerical

assistance in this program. The funding consists of \$497,164 in federal funds and \$256,115 from the enterprise account. According to the agency, federal regulations passed in late 1989 and 1990 require more thorough and timely activity on caseloads.

STATE ASSUMED COUNTY ADMINISTRATION

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	.00	.00	.00	.00	.00
Operating Expenses	1,060,855	1,128,655	1,105,533	1,106,195	1.01%
Equipment	<u>19,249</u>	<u>16,019</u>	<u>16,019</u>	<u>16,019</u>	<u>-9.16%</u>
Total Program	\$1,080,104	\$1,144,674	\$1,121,552	\$1,122,214	.85%
<u>Fund Sources</u>					
General Fund	637,682	704,726	614,270	614,759	-8.45%
Federal Revenue Fund	<u>442,422</u>	<u>439,948</u>	<u>507,282</u>	<u>507,455</u>	<u>15.00%</u>
Total Funds	<u>\$1,080,104</u>	<u>\$1,144,674</u>	<u>\$1,121,552</u>	<u>\$1,122,214</u>	<u>.85%</u>

Program Description

The State Assumed County Administration program funds the majority of operating and equipment costs associated with the administration of welfare programs in the 12 counties in which the state has assumed responsibility for county welfare programs. Personal services, benefits, and the remaining operational costs are provided for within other department programs.

1990 level. Adjustments made to the 1990 base are: 1) inflationary increases of nearly \$29,000 per year; 2) increases for building rent in the 12 assumed counties of \$81,375 per year; and 3) removal of one-time contract service expenditures of approximately \$65,000 annually. Equipment is funded at the agency request which is also the fiscal 1991 appropriated level.

Current Level Budget

Operating expenses increase approximately \$45,000 per year over the fiscal

This program is funded by a combination of general fund and federal funds (a mixture of food stamps, welfare, and medicaid administrative funding). Current level funding for the 1993 biennium is based on the funding mix submitted by the agency.

MEDICAL ASSISTANCE

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	41.99	41.99	38.50	38.50	-3.49
Personal Services	1,017,583	1,280,480	1,233,289	1,231,659	7.26%
Operating Expenses	2,573,229	2,472,153	2,641,283	2,642,054	4.72%
Equipment	79,472	3,198	3,198	3,198	-92.26%
Benefits and Claims	183,780,182	192,343,539	212,771,098	230,012,992	17.72%
Total Program	\$187,450,466	\$196,099,370	\$216,648,868	\$233,889,903	17.47%
<u>Fund Sources</u>					
General Fund	48,887,272	49,426,140	54,240,796	58,441,992	14.62%
State Revenue Fund	6,906,998	7,030,000	8,288,096	8,557,418	20.87%
Federal Revenue Fund	131,656,196	139,643,230	154,119,976	166,890,493	18.32%
Total Funds	\$187,450,466	\$196,099,370	\$216,648,868	\$233,889,903	17.47%

Program Description

The Medical Assistance program is responsible for administering the Medicaid and State Medical programs. The Medicaid program, administered under federal regulations, serves persons who qualify for financial assistance under federal programs. The State Medical program, administered under state regulations in 12 counties, serves persons who are ineligible for medicaid benefits, but who do not have adequate financial resources to pay their medical bills. Statutory authority for the program is provided in Title 53, Chapter 6, MCA.

Current Level Budget

Current level FTE are reduced 3.49 positions due to: 1) 1.49 FTE eliminated as a result of agency reorganization; and 2) 2.0 FTE eliminated because they were vacant longer than six consecutive months as of September 1990. Personal service expenditures increase approximately \$215,000 per year over the fiscal 1990 level because: 1) vacancy savings occurred in fiscal 1990 but are not budgeted in the 1993 biennium; and 2) employee pay increases granted in fiscal 1991 are continued in the 1993 biennium.

Operating expenses increase approximately \$68,000 per year over the fiscal 1990 level. Adjustments made to the 1990 base are: 1) inflationary increases of approximately \$3,000 per year; 2) an increase of approximately \$63,000 per year in contracted services, most of which compensates for below normal costs for hospital and nursing home audits in fiscal 1990; and 3) an increase of approximately \$2,000 per year in building rent paid to the Department of Administration. Equipment expenditures are included at the agency request, which is the fiscal 1991 appropriated level.

Benefit expenditures increase \$29.0 million in fiscal 1992 and \$46.2 in fiscal 1993 over the fiscal 1990 level primarily due to projected increases in both caseload and recipient utilization in the primary care medicaid program. The LFA current level expenditures for primary care medicaid are based on 2 percent annual caseload growth in AFDC-related medicaid recipients and 4 percent annual caseload growth in SSI-related medicaid recipients from fiscal 1990 through fiscal 1993. Utilization and costs per service unit increases during the 1993 biennium are projected from historical trends from fiscal 1987 through fiscal 1990. Although the LFA and OBBP agreed to a methodology for projecting primary care medicaid costs, the LFA projection is slightly higher than projections used in the Executive

MEDICAL ASSISTANCE

Budget because one additional month of medicaid data was available when the final LFA projection was made. The Executive Budget reduces medicaid expenditures \$5.8 million during the 1993 biennium to reflect cost containment efforts which is not included in the LFA current level.

The Executive Budget and the LFA current level include the same costs for the medicaid waiver and medicare buy-in programs, but the LFA current level includes \$8.5 million more during the biennium for nursing home costs than the Executive Budget does. The LFA nursing home cost projections are based on estimated fiscal 1991 expenditures plus 3 percent annual growth through the 1993 biennium. The Executive Budget requests less for nursing home care each year of

the biennium than the LFA estimates will be spent in fiscal 1991.

The LFA current level expenditures for the state medical program during the 1993 biennium are based on estimated costs for fiscal 1991 with no increases projected for caseloads or utilization. The Executive Budget includes \$6.5 million less during the biennium than the LFA current level due to proposed reductions in scope of the program. (The Medicaid and the State Medical programs are discussed in greater detail in the "Issues" section below.)

Table 9 shows actual benefit expenditures by type for fiscal year 1990 and LFA projected expenditures for the 1993 biennium. Table 10 shows the portion of benefits supported by the state general fund.

Table 9
Current Level Benefits
1993 Biennium

<u>Medical Benefits</u>	<u>Total Fiscal 1990</u>	<u>Total Fiscal 1992</u>	<u>Total Fiscal 1993</u>	<u>Annual Change FY90-FY93</u>
Nursing Care	\$53,955,000	\$61,052,072	\$62,883,634	5.24%
Inpatient Hospital	38,142,555	45,621,689	50,040,591	9.47%
Physicians Services	15,195,738	18,339,795	20,082,039	9.74%
Other Services	15,238,655	17,717,540	20,288,622	10.01%
Prescription Drugs	11,237,271	11,444,595	11,410,333	0.51%
State Institutions	10,103,908	10,260,843	10,666,425	1.82%
Inpatient Psychiatric	9,297,657	10,207,579	10,720,112	4.86%
Outpatient Hospital	8,812,113	15,385,951	20,505,595	32.51%
State Medical	5,642,113	4,500,000	4,500,000	-7.26%
Medicaid Waiver	4,912,626	4,972,458	4,972,458	0.40%
Medicare Buy-In	4,337,485	5,178,800	5,697,000	9.51%
Dentists Services	3,070,663	3,138,403	3,145,110	0.80%
Other Practitioners	2,719,396	3,042,615	3,192,315	5.49%
Indian Health Transfers	1,025,842	1,908,758	1,908,758	23.00%
Medicaid Surveys	89,160			NA
Total	\$183,780,182	\$212,771,098	\$230,012,992	7.77%

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Table 10
Current Level General Fund Benefit Expenditures
1993 Biennium

Medical Benefits	G. Fund Fiscal 1990	G. Fund Fiscal 1992	G. Fund Fiscal 1993	Annual Change FY90-FY93
Nursing Care	\$15,263,870	\$17,271,631	\$17,670,301	5.00%
Inpatient Hospital*	4,482,555	4,618,280	5,503,988	7.08%
Physicians Services	4,298,874	5,188,328	5,643,053	9.49%
Other Services	4,311,015	5,012,292	5,701,103	9.76%
Prescription Drugs	3,179,024	3,237,676	3,206,304	0.29%
Inpatient Psychiatric	2,630,307	2,887,724	3,012,351	4.62%
Outpatient Hospital	2,492,947	4,352,686	5,762,072	32.22%
State Medical	5,642,113	4,500,000	4,500,000	-7.26%
Medicaid Waiver	1,389,782	1,406,708	1,397,261	0.18%
Medicare Buy-In	2,254,577	2,485,824	2,734,560	6.65%
Dentists Services	868,691	887,854	883,776	0.58%
Other Practitioners	769,317	860,756	897,041	5.25%
Total	\$47,583,071	\$52,709,759	\$56,911,809	6.15%

*The welfare levy in the 12 assumed counties is used as state match in this category.

General fund expenditures increase \$5.4 million in fiscal 1992 and \$9.6 million in fiscal 1993 above the fiscal 1990 level. Increases in general fund medicaid match are partially offset by projected reductions in state medical expenditures (which are 100 percent general fund) and increases in the 12 mill levy (state revenue fund) collected in state-assumed counties and used in lieu of general fund for medicaid match. Expenditures from federal sources increase \$22.5 million in fiscal 1992 and \$35.2 million in fiscal 1993 above the fiscal 1990 level due to a combination of escalating medicaid costs and a federal medicaid participation rate which increases in increments from 71.17 percent in fiscal 1990 to 71.9 percent in fiscal 1993.

Issues

Nursing Home Bed Fee

The Executive Budget proposes the levying of a \$1.00 per diem fee on each nursing home bed in the state to partially offset the general fund cost

of providing increases in nursing home medicaid rates beginning fiscal 1993. The executive estimates that the fee will generate \$2.2 million in fiscal 1993 which will be deposited in the state general fund. Although the fee would be imposed on nursing homes for the stated purpose of providing medicaid rate increases to the facilities, the revenues generated by the fees are not earmarked for that purpose and could be used for any purpose the legislature desired.

The state will not be able to reimburse the facilities for fees paid on beds occupied by non-medicaid patients. (The executive estimates that approximately 62 percent of nursing patients are medicaid-eligible.) The facilities will either have to absorb the cost of the fee for private-pay patients or raise the rates paid by non-medicaid patients. In addition, the Omnibus Budget Reconciliation Act (OBRA) of 1990 prevents such provider-specific taxes from being included in a provider's cost base for purposes of medicaid reimbursement after January 1, 1991.

MEDICAL ASSISTANCE

The State Medical Program

The State Medical program provides medical services to persons residing in the 12 counties for which the state has assumed welfare responsibilities. The program, funded entirely with state general fund, provides medical services to persons who do not qualify for medicaid but are unable to pay their own medical bills. The program currently reimburses for the same types and levels of medical services reimbursed in the medicaid program. During fiscal 1989, the state spent approximately \$14.69 per capita providing medical services in the 12 assumed counties, while Yellowstone and Gallatin Counties (the two largest non-assumed counties) spent an average \$2.18 per capita providing medical services within their respective counties.

The LFA current level estimates that state medical expenditures in fiscal 1991 will be less than they were in fiscal years 1989 and 1990, mainly due to decreasing caseloads. Table 11 shows the average monthly number of persons eligible to receive services under the state medical program from January 1989 through November 1990.

Table 11
State Medical Program
Average Monthly Eligibles

Month	Fiscal 1989	Fiscal 1990	Fiscal 1991
July		1,678	843
August		1,740	874
September		1,652	835
October		1,610	889
November		1,549	876
December		1,525	
January	*1,954	1,467	
February	2,004	1,292	
March	2,075	1,273	
April	2,022	1,177	
May	1,961	1,077	
June	1,811	998	
Monthly Av.	1,971	1,420	863

* Records not available earlier

Although the number of persons eligible to receive services under the State Medical program has decreased significantly since January 1989, expenditures have not decreased at a commensurate rate. Expenditures for fiscal 1989 were \$5.8 million, while the average monthly number of persons eligible to receive services during the last half of fiscal 1989 was 1,971. Estimated costs for fiscal 1991 are \$4.5 million for an estimated monthly average of 863 persons eligible to receive services. This trend indicates that the smaller number of persons who remain eligible for medical services are, on average, more costly than those who are no longer eligible. While the LFA current level projects 1993 biennium expenditures for this program based on estimated fiscal 1991 eligibility numbers and expenditures, the Executive Budget requests \$6.5 million less than the LFA current level for the biennium. Although the executive is proposing a significant reduction in the State Medical program to more closely approximate medical programs provided in non-assumed counties, there is no evidence to suggest that expenditures will be reduced to the extent requested in the Executive Budget. If the legislature approves the Executive Budget proposal to reduce the scope of the State Medical program, it may wish to carefully review the estimated savings on which the Executive Budget request is based.

Inpatient Psychiatric Treatment

Psychiatric Hospital Treatment

The Executive Budget requests that \$5.0 million in general fund medicaid match for inpatient hospital psychiatric treatment for children and adolescents be appropriated to the Department of Family Services (DFS) rather than SRS. The Executive Budget proposes that DFS use these funds, along with other available funds, to provide a continuum of care for psychiatric services provided to youth. The funds would be available for matching federal medicaid funds appropriated to SRS or could be used to fund the entire cost of treatment when medicaid does not reimburse for the service. While this proposal would provide funding to DFS

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for developing less intensive, less costly treatment alternatives to inpatient hospitalization, such alternatives will only reduce inpatient hospital medicaid costs for youth for whom the state is financially responsible (patients committed by the courts or admitted under the auspices of DFS). Even if DFS develops alternatives to inpatient hospital treatment, parents will still be able to admit their children to inpatient psychiatric hospitals at medicaid expense.

Under current SRS administrative rules, financial eligibility criteria for persons under 21 years of age admitted to inpatient psychiatric hospitals permit medicaid reimbursement for children of parents who may be financially able to contribute towards the cost of treatment. The rules state: "Because the individual is not living with his parent, parental income will be considered only when actually contributed." The application of this rule may make youth eligible for medicaid reimbursement who would not be eligible if medicaid financial standards were applied to their parents' income and assets.

SRS proposed amendments to the rule which would have required that income and resources of parents be considered in determining medicaid eligibility. A hearing on the proposed amendment scheduled for July 11, 1990, was canceled and the proposed amendment withdrawn. Reasons given by SRS for withdrawing the proposal were: 1) to allow DFS more time to develop alternatives to inpatient treatment; 2) to allow providers more time to analyze the impact of the proposed amendment on admissions and facility budgets; and 3) to allow SRS more time to gather data on the impacts of the proposed change. The legislature may wish to request that SRS report on progress made toward the implementation of the proposed rule change.

Psychiatric Residential Treatment

House Bill 304, enacted by the 1989 legislature, expanded the medicaid inpatient psychiatric program to include reimbursement of residential facilities, as well as hospitals. The legislature

attempted to partially control the expansion of the medicaid reimbursement for the expanded service by requiring that, "To the extent allowed by federal law, the department shall by rule limit eligibility for medicaid reimbursement for residential treatment facility services to those persons under 18 years of age committed to the Department of Family Services by a youth court under 41-5-523 or placed in the legal custody of the Department of Family Services under 41-3-406." However, the federal government denied SRS's request for a waiver to implement this provision. Therefore, the state cannot control the number of medicaid eligible admissions to residential facilities as envisioned in the legislation.

The Executive Budget requests \$3.5 million in general fund in a DFS budget modification and \$9.0 million in federal medicaid match in SRS's budget to reimburse for residential psychiatric services during the 1993 biennium. However, House Bill 304 established this expansion as a two-year pilot program and authorized medicaid reimbursement for residential psychiatric treatment only through July 1, 1991. During the pilot period, the Departments of Health and Environmental Sciences, SRS, and DFS were to develop an appropriate methodology for determining the need for residential treatment facility services and prepare a report for submission to the 52nd Legislature on the results of the study.

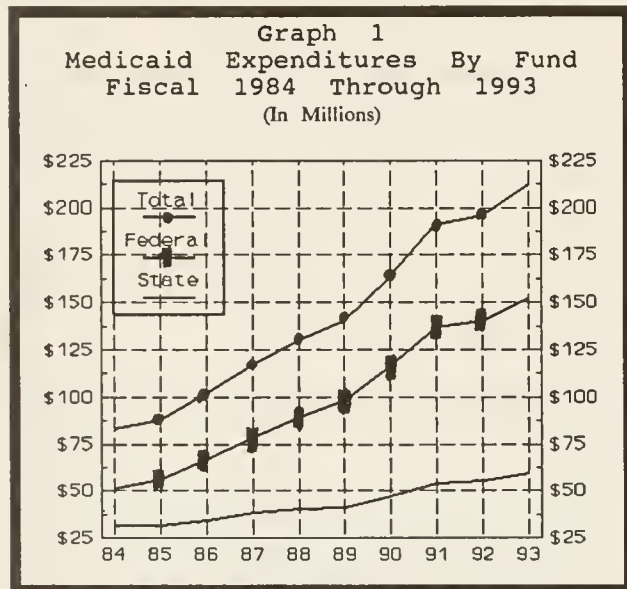
The Medicaid Program

Medicaid Costs

Based on the LFA current level medicaid cost projections for the 1993 biennium, Montana's medicaid expenditures will increase 10.9 percent annually from fiscal 1984 through fiscal 1993. The projections do not include any provider rate increases during the 1993 biennium. The state has not felt the full impact of these increases because the federal matching rate has increased from 61.82 percent in fiscal 1984 to 71.9 percent in fiscal 1993. Expenditures from federal funds will increase 12.8 percent annually during the period fiscal 1984 through 1993, while state medicaid match increases at an annual rate of 7.2

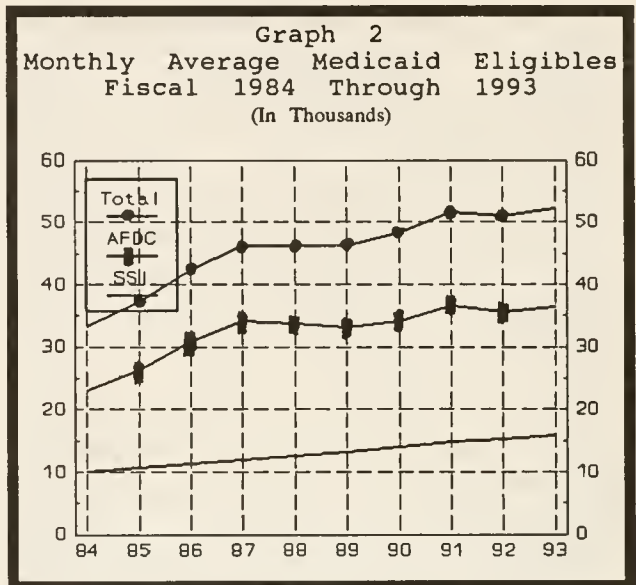
MEDICAL ASSISTANCE

percent. Graph 1 shows medicaid expenditures by state and federal funding sources from fiscal 1984 through fiscal 1993. (Institutional reimbursement is not included.)



Medicaid Eligibility

Medicaid cost increases during the period fiscal 1984 to fiscal 1993 are primarily due to growth in numbers of persons eligible for medicaid services and increased utilization of medicaid services by those who are eligible. The average monthly number of people eligible for medicaid services has increased at an annual rate of 5.1 percent from fiscal 1984 to the estimated fiscal 1993 level. These increases have occurred despite a decrease in the state's population during the period. Graph 2 shows the growth in the average monthly number of persons eligible for medicaid services by eligibility type from fiscal 1984 through fiscal 1993.



It will be difficult for the state to control medicaid costs as long as the "pool" of persons eligible to receive medicaid services continues to increase more than 5 percent annually as it has since fiscal 1984. Once a person becomes eligible for medicaid services, he/she is entitled to all covered services, no matter how costly. While the state operates its medicaid program under broad federal guidelines, it is permitted certain flexibility in the number of people it serves and the level and types of services it provides. During federal fiscal year 1989, Montana had more medicaid recipients per 1,000 population than any other state in the region. Table 12 shows the number of medicaid recipients per 1,000 population for each state of the region and the percentage of each state's medicaid recipients to the regional average.

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Table 12
Medicaid Recipients
Federal Fiscal Year 1989

State	Recipients Per 1,000 Population	% Of Region
Montana*	75.56	129.65%
North Dakota	70.05	120.20%
South Dakota	62.89	107.90%
Wyoming	61.69	105.85%
Colorado	56.24	96.49%
Utah*	53.88	92.44%
Idaho	46.33	79.49%
Average	58.28	100.00%

* Includes medically needy

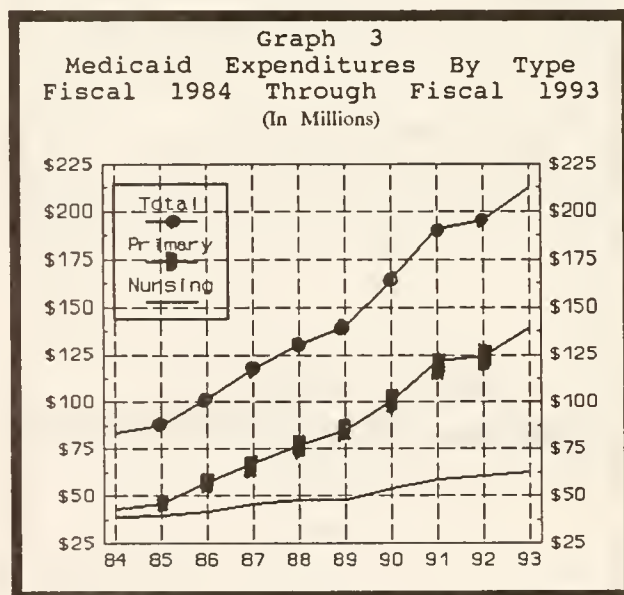
Federal regulations require that states provide medicaid services to persons who are "categorically" needy. In general, these persons are aged, blind, disabled, or families and children who meet the financial eligibility requirements of the federal AFDC and SSI programs. Persons receiving financial assistance under these programs are "categorically" needy and are automatically entitled to medicaid benefits. Although the state is required to provide medicaid services to the "categorically" needy, it is permitted a degree of flexibility in determining financial eligibility criteria for persons in the AFDC program. Decisions regarding income, resource, and benefit standards are left to the state as long as the decisions comply with general federal direction. Montana had more AFDC recipients per 1,000 population than any other state in the region during fiscal 1989. (See "Issues" section in the Family Assistance program narrative.)

Federal regulations allow states to provide medicaid services to persons who are "medically" needy. In general, these individuals could qualify for financial assistance payments except for their slightly greater income and/or resources but lack sufficient income and/or resources to pay their medical

bills. Montana provides medicaid services to both the "categorically" and "medically" needy. During state fiscal year 1990, the medically needy category comprised only 6.2 percent of the total number of persons eligible for medicaid services, but 22 percent of medicaid expenditures were made for the medically needy. SRS is currently conducting a study of the medically needy medicaid population and will present the study to the 1991 legislature.

Medicaid Utilization

From fiscal 1984 through fiscal 1993, expenditures for primary care will increase at an annual rate of 13.9 percent during the period compared to an annual 5.4 percent increase for nursing care. Graph 3 shows total medicaid expenditures and primary care and nursing care expenditures from fiscal 1984 through estimated fiscal 1993.



Available data suggests that the significant increases in primary care costs have not been due to "medical inflation" (provider rate increases) but rather increasing numbers of persons becoming medicaid eligible and increased utilization of available services by medicaid recipients. Utilization of primary care medicaid services has increased steadily during the period 1984 to 1990 and is projected to increase through the 1993 biennium.

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Controlling the use of primary care services by medicaid recipients is difficult for at least three reasons: 1) except for a small co-payment required by certain recipients for some services, medical services are provided free to medicaid recipients; 2) due to potential liability problems, medicaid providers may be reluctant to deny requests for medical services; and 3) as medical technology becomes more complex, health professionals may order additional costly tests and procedures. Although federal medicaid rules permit states to take limited action after a medicaid recipient has overused or misused medicaid services, such action does not prevent over-utilization before it occurs. The 1989 legislature required that SRS study the issue of limiting medicaid services by restricting services to those services necessary to prevent significant illness, to alleviate severe pain, to protect life, or to prevent significant disability. A report on the study is to be presented to the 1991 legislature.

Medicaid Provider Rates

The Executive Budget requests funding for several provider rate increases during the 1993 biennium. (See Executive

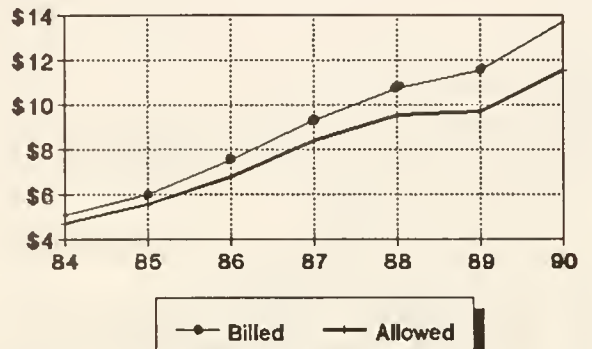
Budget Modifications below.) Federal medicaid regulations require that each state's medicaid plan provide payment rates consistent with efficiency, economy and quality of care. Regulations also require that medicaid rates be sufficient to enlist enough providers so that services are available to medicaid recipients at least to the extent that the same services are available to the general population. Available data suggests that medicaid reimbursement rates paid to providers from fiscal 1984 to fiscal 1990 did not keep pace with inflation. One method which may illustrate how increases in provider reimbursement rates compared to inflation during the period is to compare amounts billed by providers to the amounts allowed by medicaid. Assuming that providers increased their charges during the period to reflect increased costs of doing business, such as salary increases and increased malpractice insurance premiums, a widening gap between costs billed and costs allowed indicates that reimbursement rates have not kept pace with inflation. Graphs 4 through 9 show the amounts billed by six provider groups and the amounts allowed by medicaid from fiscal 1984 through fiscal 1990.

MEDICAL ASSISTANCE

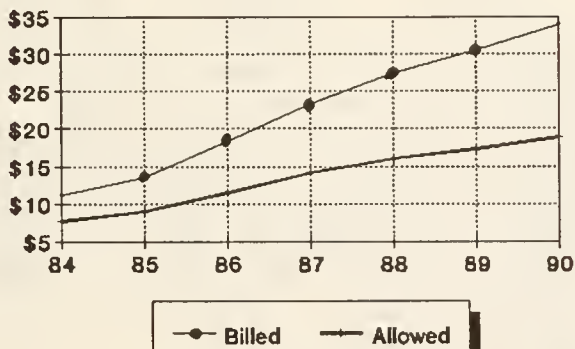
Graph 4
Inpatient Hospital Charges/Allowed
(In Millions)



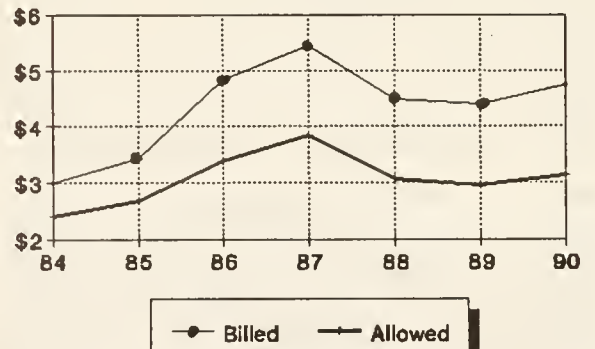
Graph 7
Pharmacy Charges/Allowed
(In Millions)



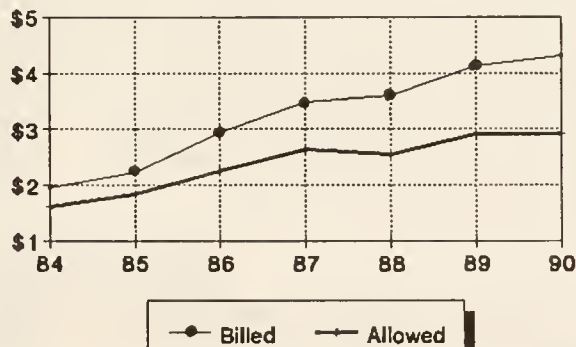
Graph 5
Physician Charges/Allowed
(In Millions)



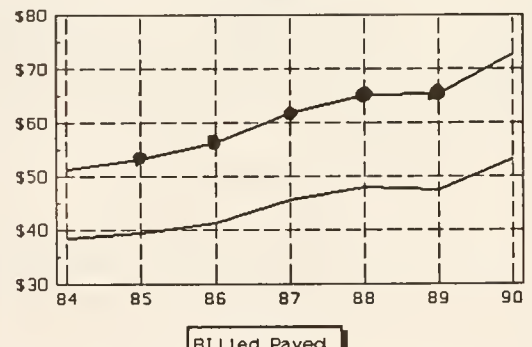
Graph 8
Dentist Charges/Allowed
(In Millions)



Graph 6
Other Practitioner Charges/Allowed
(In Millions)



Graph 9
Nursing Facility Charges/Paid
(In Millions)



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Executive Budget Modifications

1993 Biennium

<u>Budget Modifications</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
1) EPSDT Case Management/Screening	\$ 180,346	\$ 459,494	\$ 639,840
2) Pregnant Women Case Management	278,058	708,138	986,196
3) Children's Dental Expansion	122,641	312,333	434,974
4) Baby your Baby	0	268,000	268,000
5) Obstetric/Pediatric Rate Increases	2,730,827	6,954,674	9,685,501
6) Hospital Rate Rebase	1,227,484	3,140,787	4,368,271
7) Nursing Home Rate Rebase	4,476,613	11,419,548	15,896,161
8) Nursing Home Fee Adjustment	391,350	1,001,354	1,392,704
9) Ambulance Provider Rate Increase	278,520	709,316	987,836
10) Medicaid Waiver Expansion	175,022	446,043	621,065
11) Health Clinic Expansion	36,653	93,347	130,000
12) Residential Psychiatric Treatment	0	9,006,383	9,006,383
13) OBRA-1987 DD Treatment	644,600	762,470	1,407,070
14) Nurse Aid Testing	172,800	172,800	345,600
15) Hospital Rate Study	152,780	152,780	305,560
16) Cost Containment	330,600	30,600	361,200
Total	\$11,198,294	\$35,638,067	\$46,836,361

EPSDT Case Management and Screening

Federal medicaid regulations require each state to implement an Early, Periodic Screening, Diagnosis, and Treatment (EPSDT) program designed to permit early detection of health problems in children. The Executive Budget requests \$639,840 to provide case management services to the EPSDT-eligible medicaid population. Case management services include outreach, medical care coordination, arranging least costly appropriate care, and preventive health education. Additional funds are also requested to permit more frequent screenings for the EPSDT population. This modification is a component of the department's "Kids Count" initiative.

Pregnant Women Case Management

The Executive Budget includes \$986,196 to implement case management services targeted towards pregnant women who meet high risk criteria indicating they may not deliver a full-term infant. The goal of case management is to assist the

client with obtaining necessary services to deliver a normal birthweight baby and thereby decrease the long-term cost to medicaid of caring for low birthweight babies. This modification is also a component of the "Kids Count" initiative.

Children's Dental Expansion

The Executive Budget includes \$434,974 to increase medicaid reimbursement to dentists for services provided to children. Reimbursement would increase from the current average 65.5 percent to 79 percent of dentist's charges to assure that adequate numbers of dentists are available to provide services to medicaid eligible children at the medicaid reimbursement rate. This modification is also a component of the "Kids Count" initiative.

Baby your Baby

The Executive Budget includes \$268,000 for fiscal 1992 to continue this program started by budget amendment in 1991. Requested funds are 50 percent private

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donations matched by 50 percent federal funding. The program addresses access of pregnant women to medical care, healthy habits during pregnancy, and other pregnancy-related issues. Media public service announcements and posters and pamphlets are used to reach as many women as possible. This modification is also a component of the "Kids Count" initiative.

Obstetric/Pediatric Rate Increases

The Executive Budget includes \$9,685,501 to increase medicaid reimbursement rates to physicians for providing obstetrical and pediatric services to medicaid recipients. Federal regulations specifically require states to document that these services are available to medicaid recipients at least to the extent that the services are available to the general population in a geographic area.

Hospital Rate Rebase

The Executive Budget includes \$4,368,271 to increase medicaid reimbursement rates for services provided by hospitals to medicaid recipients in fiscal 1993. Federal regulations require states to set medicaid rates which cover costs incurred by efficiently and economically operated facilities in complying with medicaid regulations. This modification will allow medicaid reimbursement rates to cover a larger portion of hospital costs.

Nursing Home Rate Rebase

The Executive Budget includes \$15,896,161 to increase medicaid reimbursement rates to nursing homes based on more recent cost data. A nursing home reimbursement study, conducted to determine the actual costs incurred by nursing facilities, found that current medicaid reimbursement rates fell short of meeting facility costs. This modification will permit the phasing-in of higher rates costing \$5.154 million in 1992 and \$10.742 million in 1993.

Nursing Home Fee Adjustment

Beginning in fiscal 1993, the executive proposes to levy a \$1.00 per bed day-user fee in all nursing facilities within the state. The revenue would be deposited in the state general fund to partially offset the cost of proposed nursing home medicaid rate increases. The Executive Budget includes \$1,392,704 in addition to the \$15,896,161 listed above for increased medicaid reimbursement to nursing facilities.

Ambulance Provider Rate Increase

The Executive Budget includes \$987,836 to increase medicaid reimbursement rates for ambulance services provided to medicaid recipients. According to department staff, ambulance medicaid reimbursement rates have been frozen since 1982, except for the annual 2 percent increases approved for the 1991 biennium. Department staff estimate that ambulance providers are currently reimbursed approximately 50 percent of their cost of providing basic life support services and only 10 percent of costs for advanced life support and air ambulance services.

Medicaid Waiver Expansion

The Executive Budget includes \$621,065 to expand home and community-based waiver services for elderly and disabled persons as an alternative to placement in nursing facilities. According to department records, there were 21 elderly and 73 disabled persons waiting for waiver services as of September 1990.

Health Clinic Expansion

The Executive Budget includes \$130,000 to provide reimbursement to all community and migrant health clinics currently funded under the Public Health Act. According to department staff, states have, in the past, been able to limit covered services in these facilities but now must reimburse for all services provided by these facilities.

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Residential Psychiatric Treatment

The Executive Budget includes \$9,006,383 in federal spending authority to provide medicaid reimbursement for residential psychiatric treatment. House Bill 304, enacted by the 1989 legislature, authorized medicaid reimbursement for psychiatric treatment in residential facilities as a pilot program during the current biennium. Federal medicaid spending authority of \$1.5 million was appropriated for each year of the 1991 biennium to be matched by state foster care monies appropriated to the Department of Family Services (DFS). This modification requests federal authority during the 1993 biennium while the general fund match is requested in the DFS 1993 biennium budget.

OBRA-1987 DD Treatment

The Executive Budget includes \$1,407,070 to provide active DD treatment in nursing homes. The Omnibus Budget Reconciliation Act (OBRA) of 1987 requires that states evaluate the needs of persons with developmental disabilities who reside in nursing facilities. Based on federal criteria, certain nursing home residents with developmental disabilities may either move to community-based DD services or remain in the nursing facility on the condition that they receive active treatment. This modification would fund active treatment in nursing facilities for those residents who wish to remain in the facilities.

Nurses Aide Testing

The Executive Budget includes \$345,600 to contract for the testing of nurse aides. OBRA 1987 required that nurse aides receive training and that a test be developed to test nurse aides for competency.

Hospital Rate Study

The Executive Budget includes \$305,560 to study the prospective payment system used to reimburse hospitals for inpatient services. The current system utilizes 1983 cost data and 1986 Diagnostic Related Groups (DRG) from 1986.

Cost Containment

The Executive Budget requests an additional \$300,000 in general fund during the 1993 biennium to implement a managed care system for the State Medical program. Services which would be provided include guidance to recipients concerning appropriate, cost-effective medical care, and prior approval before certain medical services could be provided. An additional \$61,200 (50 percent federal, 50 percent general fund) is requested to provide additional audits of nursing home costs to keep nursing reimbursement rates current.

AUDIT & PROGRAM COMPLIANCE DIVISION

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	41.00	41.00	40.00	40.00	-1.00
Personal Services	959,605	1,080,795	1,074,588	1,073,671	5.29%
Operating Expenses	167,306	156,615	162,404	162,826	.40%
Equipment	34,415	3,420	3,420	3,420	-81.92%
Benefits and Claims	87,519	143,223	0	0	-100.00%
Transfers	0	0	111,433	111,433	.00%
Total Program	\$1,248,845	\$1,384,053	\$1,351,845	\$1,351,350	2.67%
<u>Fund Sources</u>					
General Fund	598,523	610,784	599,515	599,358	-.86%
Federal Revenue Fund	650,322	765,638	744,618	744,296	5.15%
Proprietary Fund	0	7,631	7,712	7,696	101.91%
Total Funds	\$1,248,845	\$1,384,053	\$1,351,845	\$1,351,350	2.67%

Program Description

The Audit and Program Compliance program is responsible for performing financial audits, quality control reviews, and making financial recoveries for the department. Financial audits are periodically conducted on all programs administered by the department. Quality control reviews are conducted on selected AFDC, food stamp, and medicaid cases to ensure compliance with state and federal laws and regulations. Financial recoveries are made in cases of public assistance overpayments and medicaid third-party liability collections, such as health and liability insurance.

Current Level Budget

Current level FTE are reduced one position due to: 1) 1.0 FTE eliminated in fiscal 1990 at the agency's request; 2) 1.0 FTE eliminated due to agency reorganization; and 3) 1.0 FTE transferred to this program from the Office of Management, Analysis, and Systems. Personal service expenditures increase approximately \$115,000 per year above the fiscal 1990 level due to vacancy savings which occurred in fiscal 1990 but are not budgeted in the 1993 biennium and employee pay increases

granted in fiscal 1991 and continued in the 1993 biennium.

Operating expenses decrease approximately \$4,700 per year from the fiscal 1990 level. Adjustments made to the fiscal 1990 base include: 1) inflationary increases of approximately \$1,600 per year; 2) an annual increase of approximately \$3,300 in building rent paid to the Department of Administration; and 3) elimination of approximately \$9,600 in one-time fiscal 1990 expenditures. Equipment is included at the agency request, which is the fiscal 1991 appropriated level. Expenditures recorded as benefits in fiscal 1990 are moved to the more appropriate transfer expenditure category and increased to equal the most recent three-year average. (These funds are transferred to the Department of Revenue, which investigates fraud in welfare and medical programs administered by SRS.) This program is funded by general fund, federal funds, and the child support enterprise account based on the funding ratio submitted by the agency.

Issue

The 1989 legislature approved 4.0 additional FTE for this program (two clerical positions and two third-party

AUDIT & PROGRAM COMPLIANCE DIVISION

liability investigators). The agency testified that additional liability investigators were necessary to meet new federal guidelines, and that they would recover approximately \$200,000 in medicaid funds that would otherwise be paid by the state. The agency received permission in fiscal 1990 to eliminate one of the additional clerical positions and purchase equipment with personal service funds. The second clerical position is eliminated during the 1993 biennium due to agency reorganization.

The 1989 legislature also required the agency to "conduct quality assurance reviews in counties with state-assumed welfare services", and that the reviews must include "reviews of case records, verification of information used to determine eligibility, investigation of fraud, and compliance oversight." The legislature may wish to request that the agency prepare and submit a detailed report on the results of this review.

OFFICE OF MANAGEMENT, ANALYSIS, & SYSTEMS

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	44.50	44.50	36.25	36.00	-8.50
Personal Services	997,288	1,307,824	1,080,335	1,074,727	-6.51%
Operating Expenses	3,951,104	5,773,757	3,889,431	4,628,185	-12.42%
Equipment	<u>170,849</u>	<u>25,632</u>	<u>632</u>	<u>632</u>	<u>-99.36%</u>
Total Program	\$5,119,241	\$7,107,213	\$4,970,398	\$5,703,544	-12.70%
<u>Fund Sources</u>					
General Fund	1,123,483	1,341,704	1,774,956	2,017,630	53.85%
State Revenue Fund	60,737	527,691	468,426	513,112	66.81%
Federal Revenue Fund	3,923,327	5,198,466	2,705,630	3,151,509	-35.79%
Proprietary Fund	<u>11,694</u>	<u>39,352</u>	<u>21,386</u>	<u>21,293</u>	<u>-16.39%</u>
Total Funds	\$5,119,241	\$7,107,213	\$4,970,398	\$5,703,544	-12.70%

Program Description

The Management, Analysis, and Systems program, created during the 1991 biennium, administers the department's budget management process and computer information systems. The program is assigned responsibility for developing and implementing two large computer information systems--The Economic Assistance Management System (TEAMS) and The System for Enforcement And Recovery of Child Support (SEARCHS).

Current Level Budget

Current level FTE are reduced 8.5 positions due to: 1) 1.0 FTE eliminated as a result of agency reorganization; 2) 5.5 FTE eliminated as the TEAMS project moves from the developmental to operational stage; 3) 1.0 FTE eliminated because it was vacant longer than six consecutive months as of September 1990; and 4) 1.0 FTE which the agency transferred to the Audit and Program Compliance program. Personal service expenditures increase an average \$80,000 annually over the fiscal 1990 level because: 1) vacancy savings occurred in fiscal 1990 but are not budgeted during the 1993 biennium; and 2) employee pay increases granted in fiscal 1991 are continued in the 1993 biennium.

Operating expenses decrease approximately \$62,000 in fiscal 1992 but increase to approximately \$677,000 above the fiscal 1990 level in fiscal 1993. The small reduction in fiscal 1992 is mostly attributable to elimination of various expenditures relating to the development phase of the TEAMS project and to deflation in certain expenditure categories. The increase in fiscal 1993 is mainly due to increased costs for mainframe computer time as the TEAMS project becomes fully operational. Operational costs also increase to reflect full implementation of the program established by House Bill 614 enacted by the 1989 legislature. (See "Issues" below.) Equipment is funded at the agency request.

General fund expenditures increase \$651,473 in fiscal 1992 and \$894,147 in fiscal 1993 while federal funding decreases \$1,217,697 and \$771,818 for the same years largely due to the changing federal match rate as the TEAMS computer project moves from development to operational status. During development, federal funding provided approximately 85 percent of TEAMS costs but will provide approximately 55 percent when the system becomes operational. General fund makes up the difference. (Further discussion of the TEAMS project is included in "Issues" below.) State revenue consists of charges against non-assumed counties and revenues from the telephone tax imposed

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by House Bill 614, which increase significantly as the program funded by the tax becomes fully operational during the 1993 biennium. Proprietary revenues are charges against the child support enterprise account for centralized services provided by this program.

Issues

House Bill 614

The 1989 legislature enacted House Bill 614 to provide specialized telecommunications equipment and services to the handicapped. The legislation established the Committee on Telecommunications Services for the Handicapped to oversee administration of the program and appropriated \$277,831 in fiscal 1990 and \$477,475 in fiscal 1991 for the program's operations. A special account was established in the state treasury into which collections from a 10 cents per month charge on telephone access lines are deposited. All expenditures for the program are made from this account and no minimum fund balance provisions are required.

The account's fiscal 1990 ending fund balance was \$308,160 because few expenditures were made, while revenues generated by the tax were deposited in the account. For the 1993 biennium, the Executive Budget includes expenditures from this account exceeding estimated 1993 biennium revenue collections, which will result in expenditure of a portion of the fund balance. Table 12 shows the account's actual fiscal 1990 revenue and expenditures, fiscal 1991 estimated revenue and expenditures, and the Executive Budget request for this program during the 1993 biennium.

Table 13
Telecommunication Account
Revenue and Expenditures

<u>Fiscal Year</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Fund Balance</u>
1990	\$319,355	\$ 11,195	\$308,160
1991	430,000	327,662	410,498
1992	430,000	500,508	339,990
1993	430,000	549,217	220,773

If the Executive Budget request is granted, expenditures will exceed current revenues by nearly \$190,000 during the 1993 biennium. The 1989 legislature appropriated a lump sum amount to implement the program, leaving the allocation of the funds by expenditure type (personal services, operations, or equipment) to the committee's discretion. Because the program is new and established spending patterns have not been developed, the legislature has not yet been presented with a balanced long-term expenditure and revenue plan or a minimum fund balance recommendation which will ensure adequate cash flow for ongoing operations. The legislature may wish to request that the agency submit a detailed long-term operational plan containing balanced expenditures and revenues and a minimum fund balance recommendation.

The TEAMS Computer Project

The 1987 legislature appropriated \$4.3 million (\$620,524 in general fund) during the 1989 biennium to develop a computer system for local welfare offices. The 1989 legislature appropriated \$8.7 (\$1.3 million in general fund) during the 1991 biennium for the same project. The agency submitted information to the 1989 legislature stating that total development costs for the project would be \$12.1 million, but that once development was complete, ongoing operational costs would be approximately \$1.3 million per year (50 percent of which would be general fund). The Executive Budget includes \$8.1 million

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(\$3.7 million in general fund) during the 1993 biennium to fund the TEAMS project.

According to information submitted by the agency, the fiscal 1993 requested amount (which reflects ongoing operational costs) includes \$3.0 million for a "facilities management" contract with a private firm and \$1.3 million for use of the state's mainframe computer during fiscal 1993. Also included in the fiscal 1993 request is approximately \$100,000 for 2.0 FTE and miscellaneous operational costs. Although the Appropriations Report, 1991 Biennium states that ongoing operational costs were estimated by the agency to be \$1.3 million annually, the annual cost will actually be \$4.4 million, with nearly all the increase attributable to the \$3.0 million facilities management contract. Given this large increase in operational costs over the original estimate, the legislature may wish to request that the agency explain what the state is purchasing with the \$3.0 million facilities management contract.

SEARCHS Computer Project

The Executive Budget includes \$6.3 million during the 1993 biennium to develop and implement a computer system for the Child Support Enforcement program. According to information submitted by the agency, the fiscal 1992 request is to fund development of the system, while the fiscal 1993 request funds some development costs and six months of operational costs. Development costs are funded 90 percent with federal funds and 10 percent with funds from the child support enterprise account. Once the system is operational, the funding ratio will be 66 percent federal and 44 percent from the enterprise account. The agency plans to utilize a "facilities management" contract for this computer system as it has with the TEAMS computer system. Given the agency's underestimation of ongoing operational costs for the TEAMS system, the legislature may wish to request that the agency submit a fully detailed account-

ing of what ongoing operational costs of the SEARCHS system will be.

Executive Budget Modifications

TEAMS Operations

The Executive Budget includes an additional \$923,977 in general fund to fund operations of the department's computerized welfare system during the 1993 biennium. In total, the Executive Budget includes \$8.1 million to operate the system during the 1993 biennium. General fund requested in this modification will be combined with general fund of \$2.8 million in the Executive Budget current level to fund the state's share of TEAMS's operations.

SEARCHS Development/Implementation

The Executive Budget includes an additional \$5,513,120 during the 1993 biennium to develop and implement a computer system to support child support enforcement activities. This request is in addition to \$767,183 in the Executive Budget current level for the same project. The computer system is intended to provide fiscal and statistical data necessary to meet federal reporting requirements, increase data reliability, and improve the efficiency and effectiveness of the state's child support enforcement activities. The requested funds are approximately 90 percent federal and 10 percent from the child support enforcement enterprise fund.

TDD Project Implementation

The Executive Budget includes an additional \$139,383 in state special revenue and 1.0 FTE during the 1993 biennium for the Telecommunication Devices for the Deaf (TDD) program. House Bill 614, enacted by the 1989 legislature, established a program to provide specialized telecommunications equipment and services to handicapped persons. Funding for the program is generated by a monthly charge assessed against telephone access lines.

VOCATIONAL REHABILITATION PROGRAM

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	75.90	75.90	74.00	73.50	-2.40
Personal Services	1,916,622	2,008,906	2,002,280	1,990,244	1.71%
Operating Expenses	458,160	563,525	440,427	413,145	-16.46%
Equipment	15,861	7,463	11,278	11,278	-3.29%
Benefits and Claims	5,562,258	5,893,506	5,850,051	5,850,051	2.13%
Total Program	\$7,952,901	\$8,473,400	\$8,304,036	\$8,264,718	.87%
<u>Fund Sources</u>					
General Fund	848,936	964,499	969,381	968,327	6.85%
State Revenue Fund	726,767	726,698	700,267	700,190	-3.65%
Federal Revenue Fund	6,377,198	6,782,203	6,634,388	6,596,201	.54%
Total Funds	\$7,952,901	\$8,473,400	\$8,304,036	\$8,264,718	.87%

Program Description

The Vocational Rehabilitation program is responsible for providing services to persons with physical or mental disabilities of employable age to restore them to gainful employment. Clients served by the program receive counseling and are assisted in developing an individual service plan which may include counseling, training, job placement, or medical assistance. Clients who are not able to enter competitive employment are provided sheltered employment opportunities, supported employment, and independent living services. The program's statutory authority is in Title 53, Chapter 7, MCA.

Current Level Budget

Current level FTE are reduced 2.4 positions due to: 1) 0.4 FTE eliminated and personal services funding moved to contracted services; and 2) 2.0 FTE eliminated due to termination of a federally funded pilot program. Personal service expenditures increase

approximately \$80,000 per year over the fiscal 1990 level largely due to vacancy savings which occurred in fiscal 1990 and the fiscal 1991 pay plan increase which continues in the 1993 biennium. Operating expenses decrease \$17,733 in fiscal 1992 and \$45,015 in fiscal 1993. Adjustments to the fiscal 1990 operating expense base include: 1) reductions of \$34,000 in fiscal 1992 and \$57,000 in fiscal 1993 due to termination of a federal pilot program, which is partially offset by the transfer of approximately \$14,000 per year from an aggregate FTE in personal services to contracted services; and 2) inflationary adjustments. Equipment is funded at the agency request.

Benefit expenditures increase \$287,793 per year above the fiscal 1990 expenditure level due primarily to provider rate increases granted in fiscal 1991 which are continued in the 1993 biennium. Table 13 shows total benefit expenditures by type for fiscal 1990 and projected benefit expenditures for the 1993 biennium. Table 14 shows the portion of these benefits supported by the general fund.

VOCATIONAL REHABILITATION PROGRAM

Table 14
Current Level Benefits
1993 Biennium

<u>Vocational Benefits</u>	<u>Total Fiscal 1990</u>	<u>Total Fiscal 1992</u>	<u>Total Fiscal 1993</u>	<u>Annual Change FY90-FY93</u>
Section 110	\$3,967,214	\$4,237,328	\$4,237,328	2.22%
Supported Employment	537,662	537,662	537,662	0.00%
Social Security	145,807	145,807	145,807	0.00%
Migrant Workers	104,468	104,468	104,468	0.00%
Extended Employment	281,506	281,506	281,506	0.00%
JTPA Benefits	348,812	348,812	348,812	0.00%
Independent Living	<u>176,789</u>	<u>194,468</u>	<u>194,468</u>	<u>3.23%</u>
Total	\$5,562,258	\$5,850,051	\$5,850,051	1.70%

Table 15
General Fund Current Level Benefits
1993 Biennium

<u>Vocational Benefits</u>	<u>G. Fund Fiscal 1990</u>	<u>G. Fund Fiscal 1992</u>	<u>G. Fund Fiscal 1993</u>	<u>Annual Change FY90-FY93</u>
Section 110	\$428,877	\$513,562	\$513,562	6.19%
Extended Employment	281,506	281,506	281,506	0.00%
Independent Living	<u>17,679</u>	<u>21,391</u>	<u>21,391</u>	<u>6.56%</u>
Total	\$728,062	\$816,459	\$816,459	3.89%

General fund expenditures in this program increase approximately \$120,000 per year over the fiscal 1990 level, partially due to provider fee increases granted in fiscal 1991. In addition, state revenue funding decreases because fiscal 1991 appropriations from the industrial accident rehabilitation account (state revenue fund) decreased from the fiscal 1990 level, while general fund appropriations increased a similar amount to maintain expenditure levels. The fiscal 1991 ratio is maintained during the 1993 biennium. Expenditures from federal funds increase \$257,190 in fiscal 1992 and \$219,003 in fiscal 1993 above the fiscal 1990 level.

The decrease in the second year of the biennium reflects the termination of the federal pilot program.

Executive Budget Modification

Additional JTPA Funding

Funds received under the federal Job Training Partnership Act (JTPA) are used in this program to provide job training to persons with disabilities. Additional federal spending authority of \$80,000 is included in the Executive Budget to utilize additional monies made available by the federal government.

DISABILITY DETERMINATION PROGRAM

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	43.13	43.13	38.00	38.00	-5.13
Personal Services	1,293,256	1,406,638	1,012,619	1,011,889	-25.02%
Operating Expenses	1,066,215	1,189,268	1,463,220	1,511,022	31.87%
Equipment	12,803	14,000	14,000	14,000	4.47%
Benefits and Claims	<u>44,071</u>	<u>68,000</u>	<u>44,071</u>	<u>44,071</u>	<u>-21.35%</u>
Total Program	\$2,416,345	\$2,677,906	\$2,533,910	\$2,580,982	.41%
<u>Fund Sources</u>					
Federal Revenue Fund	<u>2,416,345</u>	<u>2,677,906</u>	<u>2,533,910</u>	<u>2,580,982</u>	<u>.41%</u>
Total Funds	\$2,416,345	\$2,677,906	\$2,533,910	\$2,580,982	.41%

Program Description

The Disability Determination program is responsible for determining disability of Montana residents who apply for Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI) disability benefits. The SSDI program provides cash benefits to disabled workers (and qualified dependents) who have contributed to the Social Security Trust Fund through taxes on their earnings. The SSI program provides a minimum income level for financially needy persons who are aged, blind, or disabled.

Current Level Budget

Current level FTE are reduced 5.13 positions due to: 1) 2.13 FTE aggregate physician/health care professional positions eliminated and annual personal service funding of \$345,500 moved to contracted services; and 2) 3.0 FTE eliminated because they had been vacant longer than six consecutive months as of September 1990. Personal service expenditures decrease approximately

\$281,000 per year from the fiscal 1990 level due to the transfer of personal service funding to contracted services described above. This decrease is partially offset by vacancy savings which occurred in fiscal 1990 but are not budgeted in the 1993 biennium and employee pay increases granted in fiscal 1991 and continued in the 1993 biennium.

Operating expenses increase \$397,005 in fiscal 1992 and \$444,807 in fiscal 1993 above the fiscal 1990 level primarily due to: 1) inflationary increases of \$51,888 in fiscal 1992 and \$99,143 in fiscal 1993; and 2) transfer of \$345,500 in personal service funding to contracted services in each year of the biennium. Equipment is funded at the agency request, which is also the fiscal 1991 appropriated level. Benefits (payments for client travel to obtain disability examinations) are maintained at the fiscal 1990 level. Federal funding from the Social Security Administration increases \$117,565 in fiscal 1992 and \$164,637 in fiscal 1993 above the fiscal 1990 level.

VISUAL SERVICES PROGRAM

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	18.80	18.80	17.75	17.75	-1.05
Personal Services	424,226	512,907	485,177	484,945	3.52%
Operating Expenses	105,528	106,109	107,965	107,217	1.68%
Equipment	9,149	9,129	9,129	9,129	-.11%
Benefits and Claims	<u>671,489</u>	<u>641,204</u>	<u>616,784</u>	<u>616,784</u>	<u>-6.03%</u>
Total Program	\$1,210,392	\$1,269,349	\$1,219,055	\$1,218,075	-1.72%
Fund Sources					
General Fund	259,710	281,106	271,910	271,714	.52%
Federal Revenue Fund	<u>950,682</u>	<u>988,243</u>	<u>947,145</u>	<u>946,361</u>	<u>-2.34%</u>
Total Funds	\$1,210,392	\$1,269,349	\$1,219,055	\$1,218,075	-1.72%

Program Description

The Visual Services program is responsible for providing rehabilitative services to persons who are blind and visually-impaired. Clients served by the program receive counseling and are assisted in developing an individual service plan, which may include counseling and guidance, job placement, adaptive living techniques, training, and medical assistance. Clients who are not able to enter competitive employment are provided sheltered employment opportunities, independent living, and visual medical services. Statutory authority for the program is in Title 53, Chapter 7 - 3, MCA.

Current Level Budget

Current level FTE are reduced 1.05 positions due to: 1) 0.05 FTE eliminated and personal service funding of \$1,879 per year transferred to contracted services; and 2) 1.0 FTE eliminated because it had been vacant longer than six consecutive months as of September 1990. Despite this reduction in FTE, personal service expenditures increase approximately \$61,000 per year above the fiscal 1990 level due to

vacancy savings which occurred in fiscal 1990 and the fiscal 1991 pay plan increase which continues in the 1993 biennium. Operating expenses increase approximately \$2,000 per year above the fiscal 1990 level due to small inflationary increases and the transfer of \$1,879 in personal services to contracted services. Equipment is funded at the agency request, which is also the fiscal 1991 appropriated level.

Benefit expenditures decrease approximately \$55,000 per year from the fiscal 1990 level. Benefits were moved between this program and the Vocational Rehabilitation program during fiscal 1990 as permitted by House Bill 100. For the most part, benefits in both programs are funded at the 1991 appropriated level. Downward adjustments have been made in benefits in this program to balance upward adjustments made in the other program. General fund expenditures increase an average \$12,000 annually above the fiscal 1990 level, while expenditures from federal sources decrease an average \$4,000 annually from the fiscal 1990 level. The changing funding ratio is largely due to adjustments made to benefits.

DEVELOPMENTAL DISABILITIES PROGRAM

Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	33.25	36.25	35.25	35.25	-1.00
Personal Services	957,979	1,119,645	1,098,492	1,097,153	5.68%
Operating Expenses	283,913	282,513	276,426	275,083	-2.63%
Equipment	9,823	1,452	804	804	-85.74%
Grants	0	0	16,000	16,000	.00%
Benefits and Claims	21,078,372	23,105,789	23,911,092	23,911,092	8.23%
Total Program	\$22,330,087	\$24,509,399	\$25,302,814	\$25,300,132	8.03%
<u>Fund Sources</u>					
General Fund	7,995,062	9,138,952	9,317,575	9,313,536	8.74%
Federal Revenue Fund	14,335,025	15,370,447	15,985,239	15,986,596	7.63%
Total Funds	\$22,330,087	\$24,509,399	\$25,302,814	\$25,300,132	8.03%

Program Description

The Developmental Disabilities program is responsible for providing services to persons who are developmentally disabled. Residential, vocational, child and family care, and other support services are provided through contracts with local non-profit corporations. Among those eligible to receive services are persons with mental retardation, cerebral palsy, epilepsy, autism, or those with neurologically handicapping conditions similar to mental retardation that occur prior to age eighteen. Statutory authority for the program is provided in Title 53, Chapter 20, MCA.

Current Level Budget

Current level FTE are reduced 1.0 position from the fiscal 1991 level due to agency reorganization. Personal service costs increase approximately \$140,000 per year above the fiscal 1990 level because: 1) vacancy savings occurred in fiscal 1990 but are not budgeted in the 1993 biennium; 2) employee pay increases granted in fiscal 1991 are continued in the 1993 biennium; and 3) 3.0 additional FTE were approved for fiscal 1991 by the 1989 legislature and are continued in the 1993 biennium. Operating expenses decrease approximately \$8,200 per year from the fiscal 1990 level due to elimination of \$8,800

in one-time fiscal 1990 expenditures. This decrease is partially offset by inflationary increases. Equipment is funded at the agency request. Grant funds (which were recorded as benefits in fiscal 1990) provide assistance in funding the annual Developmental Disabilities Conference.

Benefits increase \$2.8 million above the fiscal 1990 level due to: 1) annualized funding of \$2.4 million for the Specialized Service Support Organization (SSSO) funded by the 1989 legislature for eight months operation in fiscal 1991; and 2) other benefits funded at the fiscal 1991 appropriated level, which included provider rate increases. General fund expenditures increase an average \$1.3 million per year above the fiscal 1990 level and federal expenditures increase approximately \$1.7 million above the fiscal 1990 level mainly due to funding the new SSSO. Federal revenue is comprised of funding from several different federal programs, including medicaid.

Issue

Downsizing MDC

The Executive Budget proposes a major change in the Developmental Disabilities Service System which, if approved by the legislature, will significantly reduce the resident population at the state-

DEVELOPMENTAL DISABILITIES PROGRAM

operated Montana Developmental Center (MDC) in Boulder and expand community services for persons with developmental disabilities. The plan is divided into four phases, the first three of which are nearing completion. Phase I and II, implemented by the executive during the 1991 biennium, will provide services to 24 MDC residents in four community group homes located in Helena, Hamilton, Livingston, and Billings.

Phase III (the SSSO authorized by the 1989 legislature) will provide services to 52 residents in seven group homes located in Missoula. Thirty MDC residents will be transferred to these homes, while the remaining 22 spaces will be reserved for persons in the community who are waiting for intensive services. Phase IV contemplates a further expansion of community-based services to accommodate 60 adults and 10 children. Thirty additional MDC residents will be transferred to group homes constructed under this phase with the remaining spaces available to persons on community service waiting lists.

In total, the four-phase plan would provide community-based developmental disabilities services to an additional 146 persons, 84 of whom would be from MDC. As a result, SRS's and the Department of Family Services's (DFS) costs for providing community services will increase, while MDC's costs will decrease. In addition, the Executive Budget will seek approval to spend an estimated \$8.0 million to renovate and consolidate the MDC facility, financed by a 20-year loan from the Montana Health Facility Authority. While total general fund expenditures are reduced under the executive plan, reimbursement revenues received at MDC and deposited in the general fund are reduced even more, resulting in a net annual cost to the general fund of \$170,758.

Table 15 shows the net, annualized impact to the state general fund of the executive proposal. Only those general fund expenditure and revenue transactions directly attributable to the movement of MDC residents to the community are included in the table. The general fund revenue loss shown in

the table is due to decreases in federal and third-party reimbursement at MDC as general fund expenditures decrease. (In fiscal 1990, 58.34 percent of MDC general fund expenditures were reimbursed and deposited in the state general fund.)

Table 16
Executive DD System Modifications
Annualized General Fund Impact

<u>Expenditure/Revenue</u>	<u>General Fund Impact</u>
MDC Operations Savings	\$ (4,664,421)
Family Services Costs	195,134
SRS Costs	1,548,684
Bond Repayment Costs	888,392
General Fund Cost Savings	(2,032,211)
Less Revenue Loss	<u>2,202,969</u>
Addl. General Fund Cost	\$ 170,758

Based on recent history, actual costs of the executive proposal may be higher than shown in the table. The costs of maintaining medicaid certification for the downsized MDC and the future costs of providing community services may be underestimated. The annualized general fund costs of the SSSO approved by the 1989 legislature were underestimated by more than \$250,000 during the 1991 biennium.

Despite additional costs incurred as a result of transferring MDC residents to community programs, under current law the state is obligated to provide services to persons who are developmentally disabled in the community rather than in an institutional setting. Section 53-20-101, MCA, requires that treatment and habilitation be suited to the needs of the individual and that the state "accomplish this goal whenever possible in a community-based setting" and that services be provided "in an institutionalized setting only when less restrictive alternatives are unavailable or inadequate and only when a person is so severely disabled as to require

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institutionalized care." The court has recently enforced this provision by requiring the state to find less restrictive environments for six MDC residents. The executive responded to this ruling by implementing Phase I and moving the six residents to community facilities.

The Executive Budget proposes a comprehensive plan for the delivery of DD services in the state. The Executive Budget is requesting a supplemental general fund appropriation of \$728,115 for expenditures made during the 1991 biennium to implement Phases I and II, and a budget modification of \$782,719 for continuation of these services during the 1993 biennium. The Executive Budget also includes a small general fund budget modification for the 1993 biennium to continue operations of the SSSO approved by the 1989 legislature and a general fund budget modification of \$1.9 million to implement Phase IV of the comprehensive plan. These increases are partially offset by a reduction in MDC's operating costs as requested in the Executive Budget.

Finally, the Executive Budget requests the expenditure of \$8.0 million in borrowed funds on renovation of the MDC facility to achieve the following goals: 1) provide a facility that recognizes the aggressive/destructive behaviors of some clients; 2) develop a compact campus to minimize transportation of residents, services and materials, and maximize staff efficiencies; 3) abandon outdated structures while utilizing existing buildings and campus assets wherever practical; and 4) develop a smaller home-like residential atmosphere to the extent possible and provide services in a community-like or normal setting.

The legislature may wish to consider whether the stated goals can be fully achieved at MDC or if the \$8.0 million would be invested more wisely in construction of a new, compact facility designed specifically for the MDC population in a geographical area where required services are close to the facility.

Executive Budget Modifications

1993 Biennium

<u>Budget Modifications</u>	<u>FY92 FTE</u>	<u>FY93 FTE</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
1) DD Part H Expansion			\$2,283,372	\$	\$ 2,283,372
2) DD System Phase I and II	2.0	2.0	782,719	1,527,768	2,310,487
3) DD System Phase III SSSO			259,416	80,584	340,000
4) DD System Phase IV	3.0	6.0	1,944,028	2,091,426	4,035,454
5) Increased Medicaid Funding				1,000,000	1,000,000
6) Montana Youth Initiative				172,000	172,000
7) Chapter I Federal Funding				180,000	180,000
Total	5.0	8.0	\$5,269,535	\$5,051,778	\$10,321,313

DD Part H Expansion

The Executive Budget includes additional funds to expand the early intervention program for infants and children up to 36 months of age who have special needs. Approximately 1.5 percent of Montana

children under 36 months experience a developmental delay and would be eligible to receive services under this program. The 1989 legislature requested that the department present to the 1991 legislature the cost of full compliance with this section of Part H, Public Law

DEVELOPMENTAL DISABILITIES PROGRAM

99-457 (Education of the Handicapped Act). This budget modification is a component of the department's "Kids Count" initiative.

DD System Phase I and II

The Executive Budget includes additional funds to continue depopulating the Montana Developmental Center (MDC) at Boulder, Montana. Two additional FTE are requested each year of the biennium. When phases I and II are fully implemented, community-based services will be provided to a total of 24 MDC residents. Services provided include intensive group homes, day services, and transportation. Federal funding is available through the Medicaid Home and Community-Based Waiver.

DD System Phase III SSSO

The Executive Budget includes additional funds to operate the Specialized Service Support Organization (SSSO) authorized by the 1989 legislature. The SSSO is a collection of group homes and support services, located in a single metropolitan area, capable of providing a full range of services to 52 persons with disabilities. The costs of providing these services during the 1993 biennium exceed the executive current level budget by \$170,000 per year. (These additional costs are included in the LFA current level.)

DD System Phase IV Implementation

The Executive Budget includes additional funds to provide community-based services to 70 persons (60 adults and 10 children) with disabilities. Three additional FTE are requested in 1992 and 6.0 additional FTE in 1993. Approximately 30 persons served will be current MDC residents, while the remaining 30 will be persons selected from community-based waiting lists. SRS will provide services to the adults,

while the Department of Family Services (DFS) will provide services to the children. Services will be provided to 30 adults beginning November 1992, and the remaining 30 will begin receiving services in November 1993. Federal funding is available through the Medicaid Home and Community-Based Waiver.

Increased Medicaid Funding

The Executive Budget includes increased federal spending authority for medicaid funds during the 1993 biennium should client eligibility changes occur or if the Medicaid Home and Community-Based Waiver program expands. (It may be more appropriate for the agency to request these funds through the budget amendment process if caseloads increase and/or services expand during the biennium.)

Montana Youth Initiative

The Executive Budget includes \$172,000 in additional federal medicaid funds to provide services to four youths who began receiving services under the Montana Youth Initiative (MYI) in 1990. The MYI is a cooperative agreement between state agencies intended to provide the most appropriate treatment for difficult-to-place youth in need of services. The state match will be provided by the Department of Family Services.

Chapter I Federal Funding

The Executive Budget includes \$180,000 in increased federal spending authority for federal funds granted by the Office of Public Instruction to provide services to preschool children with developmental disabilities. Services provided include speech or physical therapy and educational training and equipment. The amount available from grants exceeds the current level budget by the amount of this modified request.

DEVELOPMENTAL DISABILITIES ADVISORY COUNCIL

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	3.00	3.00	3.00	3.00	.00
Personal Services	61,214	68,756	70,687	70,601	8.71%
Operating Expenses	29,679	41,439	30,124	30,074	-15.36%
Equipment	294	0	0	0	-100.00%
Benefits and Claims	<u>194,939</u>	<u>195,000</u>	<u>195,000</u>	<u>195,000</u>	<u>.02%</u>
Total Program	\$286,126	\$305,195	\$295,811	\$295,675	.03%
<u>Fund Sources</u>					
Federal Revenue Fund	<u>286,126</u>	<u>305,195</u>	<u>295,811</u>	<u>295,675</u>	<u>.03%</u>
Total Funds	\$286,126	\$305,195	\$295,811	\$295,675	.03%

Program Description

The Montana State Developmental Disabilities Planning and Advisory Council (DDPAC), a 100 percent federally funded program, provides advice to the Governor's Office, the department, other state agencies, local governments, and private organizations on programs and services for persons with developmental disabilities. Through its grant and contract program, the council provides start-up funds for projects designed to assist persons with disabilities. The council is provided for in Sections 53-20-206 and 2-15-2204, MCA.

Current Level Budget

Personal service expenditures increase approximately \$9,600 per year above the fiscal 1990 level due to vacancy savings which occurred in fiscal 1990 and the fiscal 1991 pay plan increase which is continued in the 1993 biennium.

Operating expenses increase approximately \$420 per year above the fiscal 1990 level due solely to inflationary increases. Benefits are funded at the fiscal 1991 appropriated level. Federal funding increases approximately \$9,600 per year above the fiscal 1990 level but is less than the fiscal 1991 appropriation.

Executive Budget Modification

DDPAC Federal Grant Increase

The Executive Budget includes additional federal spending authority of \$84,981 during the 1993 biennium to permit expenditures of the total grant amount available from the federal government. The federal grant which funds DDPAC has increased over the 1991 biennium current level. Federal grant funds received by DDPAC are split 35 percent operations and 65 percent benefits.

COMPARISON OF EXECUTIVE AND LFA CURRENT LEVELS

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Budget Item	Executive Current Level		LFA Current Level		Executive Over(Under) LFA
	Fiscal 1992	Fiscal 1993	Fiscal 1992	Fiscal 1993	
FTE	561.49	561.49	559.49	559.49	2.00
Personal Services	15,337,309	15,331,443	15,307,239	15,301,384	60,129
Operating Expenses	3,086,360	3,109,844	3,159,621	3,177,367	(140,784)
Equipment	45,982	54,125	56,482	47,260	(3,635)
Grants	5,312,649	5,323,149	5,438,336	5,375,612	(178,150)
Benefits and Claims	<u>15,940,400</u>	<u>16,072,450</u>	<u>14,248,081</u>	<u>14,920,202</u>	<u>2,844,567</u>
Total Agency	\$39,722,700	\$39,891,011	\$38,209,759	\$38,821,825	\$2,582,127
<u>Fund Sources</u>					
General Fund	26,242,290	26,350,198	24,311,594	24,811,777	3,469,117
State Revenue Fund	2,501,116	2,507,360	2,363,765	2,370,769	273,942
Federal Revenue Fund	<u>10,979,294</u>	<u>11,033,453</u>	<u>11,534,400</u>	<u>11,639,279</u>	<u>(1,160,932)</u>
Total Funds	\$39,722,700	\$39,891,011	\$38,209,759	\$38,821,825	\$2,582,127

Executive Budget Comparison

The 1993 biennium Executive Budget current level exceeds the LFA current level by \$2.6 million. However, the Executive Budget recommends transferring approximately \$5.0 million in general fund medicaid match from the Department of Social and Rehabilitation Services (SRS) to the Department of Family Services (DFS). These funds are included in the LFA current level budget in SRS. When that transfer is excluded, the Executive Budget current level is lower than the LFA current level by \$2.4 million due largely to differences in foster care caseload projections.

The Executive Budget includes \$7.7 million of modified requests for the department. When these are combined

with the current level recommendation, less the \$5.0 million transfer, the Executive Budget is \$5.3 million higher than the LFA current level in the 1993 biennium.

Table A shows the major differences between the Executive and LFA current level budgets during the 1993 biennium. The most significant differences are discussed below as "Issues." As well as these programmatic differences, the Executive Budget for the 1993 biennium includes: 1) \$108,993 less for inflation; 2) \$48,780 more for Department of Administration computer network charges; 3) \$178,717 less because of base differences in Management Support and Community Services; and 4) \$58,654 more in Mountain View primarily because of base differences in repair, maintenance, and utilities.

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Table A
Executive Current Level Budget Over/(Under)
LFA Current Level Budget
1993 Biennium

<u>Expenditure Type</u>	<u>FTE FY92</u>	<u>FTE FY93</u>	<u>General Fund Difference</u>	<u>Total Difference</u>
Medicaid Match from SRS			\$5,040,670	\$5,040,670
Foster Care Increases			(1,495,821)	(1,852,039)
Pine Hills	2.0	2.0	11,470	40,952
Independent Living			0	(270,352)
Post Adoption Center			0	(121,896)
Child Justice Act			0	(74,932)
Inflation			(108,993)	(108,993)
D of A Network			48,780	48,780
Base Differences			(88,164)	(178,717)
Mountain View			61,175	58,654
Total Differences	2.0	2.0	\$3,469,117	\$2,582,127

Issues

Medicaid Match from SRS

Part of the difference between the Executive and LFA current levels is the Executive Budget transfer of \$5.0 million in general fund medicaid match for inpatient psychiatric hospital services to DFS. Because the federal medicaid match is included in the SRS budget, the Executive Budget recommends that the general appropriations act include language allowing the transfer of appropriation authority between DFS and SRS. DFS would manage the general fund medicaid match to provide a continuum of psychiatric services to youth. These funds are included in the LFA current level budget in SRS.

Foster Care Increases

The LFA current level includes \$1.9 million more for foster care during the 1993 biennium than the Executive Budget current level. The LFA current level projects a 6 percent annual caseload growth, while the Executive Budget does not include funds for caseload increases. Foster care caseloads increased an average of 6 percent per year from fiscal 1985 through fiscal

1989. Additional details are provided in the Community Services program narrative.

Pine Hills

The Executive Budget for Pine Hills is higher by \$40,952 because it includes: 1) 2.0 FTE vacant positions that were eliminated in the LFA current level and \$66,383 more in personal services; and 2) net base differences in operating expenses and equipment that are lower than the LFA current level by \$25,431.

The interest and income fund at Pine Hills ended fiscal 1990 with a deficit of approximately \$17,000. As a result, the Executive Budget requests a general fund supplemental appropriation of \$23,600 to supplant this deficit and a projected deficit of \$6,548 in fiscal 1991.

The Executive Budget estimates \$6,500 less interest and income revenue for Pine Hills in the 1993 biennium than the LFA current level budget, and it requests \$6,500 more in general fund. While it is not reflected in the Executive Budget for Pine Hills, the executive proposes legislation that would divert up to 10 percent of Pine Hills trust interest and income to fund

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operating costs in the Department of State Lands.

Independent Living

The Executive Budget includes \$270,352 less for Independent Living than the LFA current level. The LFA current level budget is based on the most recent quarterly grant award notifications. The anticipated revenue for fiscal 1991 (\$174,421) is continued for the 1993 biennium in the LFA current level budget.

Post Adoption/Child Justice

The LFA current level includes federal funds of \$121,896 for the Post Adoption Center and \$74,932 for the Child Justice Act. These programs, authorized for

fiscal 1990 by the 1989 legislature, were not authorized for fiscal 1991 because it was not known if funds would be available. Budget amendments were approved for fiscal 1991. Based on new awards that have been received, these programs are included in the LFA current level budget and in the Executive Budget modifications.

Executive Budget Modifications

In addition to the \$79.6 million current level budget for the 1993 biennium, the Executive Budget contains \$7.7 million in modified budget requests for the Department of Family Services. These budget modifications are listed in the following agency narrative and discussed in more detail in the program narratives.

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Budget Item	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	566.37	562.49	559.49	559.49	-3.00
Personal Services	13,978,009	15,215,079	15,307,239	15,301,384	4.85%
Operating Expenses	2,989,845	2,798,675	3,159,621	3,177,367	9.48%
Equipment	42,887	54,934	56,482	47,260	6.05%
Grants	5,136,444	0	5,438,336	5,375,612	110.53%
Benefits and Claims	12,141,394	18,804,598	14,248,081	14,920,202	-5.75%
Total Agency	\$34,288,579	\$36,873,286	\$38,209,759	\$38,821,825	8.25%
<u>Fund Sources</u>					
General Fund	21,955,951	24,020,589	24,311,594	24,811,777	6.84%
State Revenue Fund	2,279,589	2,534,725	2,363,765	2,370,769	-1.66%
Federal Revenue Fund	10,053,039	10,317,972	11,534,400	11,639,279	13.76%
Total Funds	\$34,288,579	\$36,873,286	\$38,209,759	\$38,821,825	8.25%

Agency Description

The Department of Family Services (DFS) provides: 1) protective services for children, youth, and adults who are abused and neglected; 2) community based services designed to enhance the self-sufficiency and independence of the elderly and developmentally disabled; 3) care and education in the two state youth correctional institutions; and 4) aftercare services for youth coming out of these institutional placements. The department, authorized in Section 2-15-2401, MCA, and defined in Title 52, MCA, has four programs: 1) Management Support; 2) Community Services, including Aftercare and Youth Evaluation; 3) Mountain View; and 4) Pine Hills.

Current Level Budget

The current level budget increases 8.3 percent over the 1991 biennium, primarily because of increases in personal services, operating expenses, and total grants and benefits. The reduction of 3.0 FTE (in Pine Hills School) partially offsets increases resulting from the continuation of the fiscal 1991 pay plan increase in the 1993 biennium and vacancy savings which occurred in fiscal 1990 but are not budgeted in the 1993 biennium.

Operating expenses increase 9.5 percent because: 1) grant administrative expenditures, recorded as operating expense in fiscal 1990 as the result of an accounting change and budgeted as operating expense in the 1993 biennium, are appropriated as benefits in fiscal 1991; 2) contracted chemical dependency services are included at Pine Hills because 1.0 FTE chemical dependency counselor was eliminated and the funds transferred to operating expenses; and 3) inflationary increases in supplies, materials, and medical expenses are provided in Mountain View and Pine Hills schools.

Grants increase primarily because an accounting adjustment in fiscal 1990 moved approximately \$5.4 million from benefits to grants, but that change is not reflected in the fiscal 1991 appropriation. Benefits increase approximately \$2.1 million in fiscal 1992 and \$2.8 million in fiscal 1993, compared to fiscal 1990, because the current level budget includes 6 percent annual growth for foster care caseload increases. Additional details are provided in the Community Services program narrative.

Federal funds increase more than general fund because the LFA current level budget estimates that federal IV-E funds will increase from 22.7 to 26.6 percent of the total foster care budget (less

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the cost of youth court placements).
Additional details are provided in the
Community Services program narrative.

Executive Budget Modifications 1993 Biennium

<u>Budget Modification</u>	<u>FTE FY92</u>	<u>FTE FY93</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
1) Management Staff Increases	5.00	5.00	\$ 303,455	\$ 172,594	\$ 476,049
2) Phase I & II Supp. Income			54,144		54,144
3) Phase IV Supp. Income			73,320		73,320
4) Phase IV Child Placement			126,735	323,265	450,000
5) MDC Phase IV Case Mgmt.	2.75	2.75	60,364	104,878	165,242
6) Staff Increases	8.00	8.00	465,562	82,158	547,720
7) Residential Psychiatric Srvs.	1.00	1.00	3,536,426		3,536,426
8) Field Equipment			40,000		40,000
9) Child Justice Act				74,932	74,932
10) Post Adoption Center				121,896	121,896
11) Native American Services			559,840	1,425,760	1,985,600
12) Mtn. View Staff Increases	1.36	1.36	69,930		69,930
13) Pine Hills Industries				12,000	12,000
14) Cottage Life Attendants	<u>3.00</u>	<u>3.00</u>	<u>\$125,919</u>		<u>125,919</u>
Total	21.11	21.11	\$5,415,695	\$2,317,483	\$7,733,178

MANAGEMENT SUPPORT

<u>Budget Item</u>	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	43.50	43.50	45.50	45.50	2.00
Personal Services	1,245,008	1,379,028	1,465,908	1,463,617	11.64%
Operating Expenses	721,221	648,427	793,774	781,805	15.04%
Equipment	8,295	8,618	10,166	10,166	20.22%
Total Program	\$1,974,524	\$2,036,073	\$2,269,848	\$2,255,588	12.84%
<u>Fund Sources</u>					
General Fund	1,465,727	1,478,757	1,704,482	1,698,376	15.57%
State Revenue Fund	6,075	45,000	15,000	15,000	-41.26%
Federal Revenue Fund	502,722	512,316	550,366	542,212	7.64%
Total Funds	\$1,974,524	\$2,036,073	\$2,269,848	\$2,255,588	12.84%

Program Description

The Management Support program provides for the overall management and policy development of the department, as well as administrative, data processing, and fiscal support.

Current Level Budget

This program's current level budget is 12.8 percent higher than the 1991 biennium due to increases in personal services, operating expenses, and equipment. Personal services increase 11.6 percent primarily because: 1) the department transferred 2.0 FTE administrative positions and approximately \$54,000 per year in personal services costs to this program from the Community Services program; 2) 17 positions received approved upgrades; 3) vacancy savings which occurred in fiscal 1990 are not budgeted in the 1993 biennium; and 4) fiscal 1991 pay plan increases are continued in the 1993 biennium.

Operating expenses increase 15.0 percent because: 1) insurance, payroll processing fees, and rent for the Aging program expended in other programs in fiscal 1990 are included in the Management Support program in the 1993 biennium; 2) \$15,000 per year is included for adoption investigations (which is higher than the \$6,678

actually spent in fiscal 1990 but less than the \$45,000 appropriated in fiscal 1991); and 3) the Training program increases over \$45,000 per year, primarily because training contracted services have increased. The \$12,000 decrease from fiscal 1992 to 1993 reflects the agency's request for a reduced contract for aging services.

The agency's request for replacement office equipment and computers is included in the current level budget.

Funding is primarily general fund, which increases 15.6 percent because FTE and operating expenses have increased in this program. State special revenue comes from fees paid by prospective adoptive parents for adoption investigations and reports. The agency requested that this program be reduced to \$15,000 per year for the 1993 biennium from the \$45,000 per year appropriated in the 1991 biennium. Federal revenues include indirect costs allowed on federal funds appropriated in Community Services and funds for audits, training, and aging services.

Executive Budget Modification

Management Staff Increases

The Executive Budget includes \$219,716 in fiscal 1992 (\$133,483 in general fund; \$86,233 in federal funds) and \$256,333 in fiscal 1993 (\$169,972 in

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general fund, \$86,361 in federal funds) to strengthen the management capability of the department. General fund is requested for 3.0 FTE management personnel, and federal funds are requested for 2.0 FTE needed to increase

collection of federal funds and parental contributions. The request also includes \$35,000 for operating expenses, \$100,000 for a management information system, and \$13,000 for equipment.

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<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	338.33	334.45	332.45	332.45	-2.00
Personal Services	8,264,546	8,915,087	8,962,376	8,953,811	4.29%
Operating Expenses	1,254,465	1,181,907	1,319,170	1,326,142	8.58%
Equipment	13,626	22,365	22,365	22,365	24.28%
Grants	5,136,444	0	5,438,336	5,375,612	110.53%
Benefits and Claims	<u>12,141,394</u>	<u>18,804,598</u>	<u>14,248,081</u>	<u>14,920,202</u>	<u>-5.75%</u>
Total Program	\$26,810,475	\$28,923,957	\$29,990,328	\$30,598,132	8.71%
<u>Fund Sources</u>					
General Fund	15,669,143	17,341,275	17,401,342	17,896,005	6.93%
State Revenue Fund	1,957,580	2,160,963	2,022,585	2,022,589	-1.78%
Federal Revenue Fund	<u>9,183,752</u>	<u>9,421,719</u>	<u>10,566,401</u>	<u>10,679,538</u>	<u>14.19%</u>
Total Funds	\$26,810,475	\$28,923,957	\$29,990,328	\$30,598,132	8.71%

Program Description

The Community Services program provides protective services to children, the developmentally disabled, and the elderly as required in Section 52-1-103, MCA. Children's services include foster care, protective day-care, support for Big Brothers and Sisters programs, adoption referral and counseling, and coordination of youth court and school programs. Adult services include: 1) community case management for the developmentally disabled; 2) spouse abuse counseling; 3) services to unmarried parents; 4) health and nutrition programs; and 5) congregate meals, transportation, homemaker services, and legal advocacy for the elderly. The program also: 1) administers the state's supplement to the federal supplemental security income (SSI) payments to eligible disabled, aged, or blind recipients; 2) provides community aftercare services for youths released from correctional facilities or committed by the courts; and 3) provides evaluations of up to 45 days for youths aged 10-17.

Current Level Budget

This program's current level budget increases 8.7 percent over the 1991 biennium due to increases in personal

services, operating costs, grants, and benefits. Personal services increase 4.3 percent primarily because: 1) some typist positions received upgrades to secretarial positions, which increased annual costs by approximately \$16,000; 2) the fiscal 1991 pay plan increase is continued in the 1993 biennium; and 3) vacancy savings realized in fiscal 1990 are not budgeted in the 1993 biennium. Offsetting these increases is a decrease of approximately \$54,000 per year for 2.0 FTE administrative positions which were transferred to Management Support.

Operating expenses increase 8.6 percent because: 1) an accounting change in response to a legislative audit, which recommended charging operating expenses rather than grants for fiscal 1990 grant administrative expenses, is continued in the 1993 biennium but is not reflected in the fiscal 1991 appropriation; 2) annual inflationary increases of approximately \$35,000 in supplies, communications, and travel have been included in the budget; and 3) non-DOA rent increased approximately \$35,000 per year. Equipment is funded at the agency request.

Table 1 shows each of the administrative components of the Community Services Division and the fiscal 1992 and 1993 personal services, operating expenses, equipment, and funding allocated to each.

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Table 1
Community Services
Fiscal 1992 and 1993

<u>Fiscal 1992</u>	<u>Regional Staff</u>	<u>Youth Evaluation</u>	<u>Aftercare</u>	<u>Grants & Benefits</u>	<u>Total</u>
FTE	315.45	5.00	12.00	0.00	332.45
Personal Services	\$8,546,703	\$109,549	\$306,124	\$ 0	\$ 8,962,376
Operating Expenses	1,149,560	24,767	83,841	61,002	1,319,170
Equipment	<u>22,365</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>22,365</u>
Tot. Operating Exp.	<u>\$9,718,628</u>	<u>\$134,316</u>	<u>\$389,965</u>	<u>\$61,002</u>	<u>\$10,303,911</u>
General Fund	\$6,490,408	\$134,316	\$389,965	\$ 0	\$ 7,014,689
State Special Fund	912,332	0	0	5,611	917,943
Federal Revenue	<u>2,315,888</u>	<u>0</u>	<u>0</u>	<u>55,391</u>	<u>2,371,279</u>
Total Funding	<u>\$9,718,628</u>	<u>\$134,316</u>	<u>\$389,965</u>	<u>\$61,002</u>	<u>\$10,303,911</u>
<u>Fiscal 1993</u>					
FTE	315.45	5.00	12.00	0.00	332.45
Personal Services	\$8,538,251	\$109,415	\$306,145	\$ 0	\$ 8,953,811
Operating Expenses	1,155,466	25,207	84,289	61,180	1,326,142
Equipment	<u>22,365</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>22,365</u>
Tot. Operating Exp.	<u>\$9,716,082</u>	<u>\$134,622</u>	<u>\$390,434</u>	<u>\$61,180</u>	<u>\$10,302,318</u>
General Fund	\$6,488,267	\$134,622	\$390,434	\$ 0	\$ 7,013,323
State Special Fund	912,332	0	0	5,615	917,947
Federal Revenue	<u>2,315,483</u>	<u>0</u>	<u>0</u>	<u>55,565</u>	<u>2,371,048</u>
Total Funding	<u>\$9,716,082</u>	<u>\$134,622</u>	<u>\$390,434</u>	<u>\$61,180</u>	<u>\$10,302,318</u>

Benefits increase from fiscal 1990 by approximately \$2.1 million in fiscal 1992 and \$2.8 million in fiscal 1993 primarily due to a projected 6 percent annual increase in foster care case-loads. An accounting change in response to a legislative audit recommendation moved most grants from benefits to grants in fiscal 1990. Table 2 shows

the actual grants and benefits for fiscal 1990, less operating expenses, and the amounts included in the current level budget for fiscal 1992 and 1993. While total grants are essentially unchanged from fiscal 1990, benefits increase 7.5 percent annually primarily due to increases in day-care and foster care.

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Table 2
Total Grants and Benefits

<u>Grants</u>	<u>Total Fiscal 1990</u>	<u>Total Fiscal 1992</u>	<u>Total Fiscal 1993</u>	<u>Annual Change FY90-93</u>
West Yellowstone	\$ 5,148	\$ 5,362	\$ 5,362	1.37%
Home Health	15,000	15,000	15,000	0.00%
Child Abuse	137,097	112,591	112,507	-6.38%
Domestic Violence	251,810	219,588	219,588	-4.46%
Refugee*	111,477	150,000	150,000	10.40%
Day Care	56,860	50,000	50,000	-4.20%
Aging	4,543,171	4,727,136	4,737,636	1.41%
Children's Trust	61,127	61,141	61,141	0.01%
Post Adoption	<u>92,431</u>	<u>97,518</u>	<u>24,378</u>	<u>-35.87%</u>
Total Grants**	<u>\$ 5,274,121</u>	<u>\$ 5,438,336</u>	<u>\$ 5,375,612</u>	<u>0.64%</u>
<u>Benefits</u>				
Subsidized Adoption	\$ 275,987	\$ 275,987	\$ 275,987	0.00%
Big Brothers & Sisters	158,400	165,000	165,000	1.37%
Day Care	492,261	676,585	676,585	11.18%
Alcohol & Drug Treatment	201,630	205,000	205,000	0.55%
SSI	855,000	914,954	914,954	2.28%
Foster Care	9,877,456	11,875,716	12,547,927	8.30%
Independent Living	<u>142,983</u>	<u>134,839</u>	<u>134,749</u>	<u>-1.96%</u>
Total Benefits**	<u>\$12,003,717</u>	<u>\$14,248,081</u>	<u>\$14,920,202</u>	<u>7.52%</u>
Tot. Grants & Benefits	\$17,277,838	\$19,686,417	\$20,295,814	5.51%

* Excludes expenditures of \$40,245 from a continuing appropriation.

**Fiscal 1990 total grants and benefits equal the main table total, but the categories differ because of accounting changes between grants and benefits.

Table 3 shows the general fund support for grants and benefits and the annual changes from fiscal 1990 to fiscal 1993. General fund increases for day-care and a portion of the foster care increase are the result of provider increases approved by the 1989 legislature. Additional increases in foster care are due to anticipated increases in case-loads. However, the current level budget has funded part of this increase with federal funds. The department

anticipates that it can increase federal IV-E contributions from 22.7 percent to 26.6 percent of total foster care costs, less costs of youth court placements. The LFA current level budget includes federal funding at the department projection. As a result, general fund foster care increases 7.6 percent per year as shown in Table 3, compared to total foster care increases of 8.3 percent annually shown in Table 2.

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Table 3
General Fund Grants and Benefits

Grants and Benefits	G. Fund Fiscal 1990	G. Fund Fiscal 1992	G. Fund Fiscal 1993	Annual Change FY90-93
West Yellowstone	\$ 5,148	\$ 5,362	\$ 5,362	1.37%
Home Health	15,000	15,000	15,000	0.00%
Domestic Violence	131,811	135,000	135,000	0.80%
Subsidized Adoption	122,859	122,859	122,859	0.00%
Aging	695,149	640,620	643,246	-2.55%
Big Brothers & Sisters	158,400	165,000	165,000	1.37%
Alcohol & Drug Treatment	205,000	205,000	205,000	0.00%
Day-care	266,289	397,072	397,072	14.25%
SSI	855,000	914,954	914,954	2.28%
Foster Care	6,653,485	7,785,786	8,279,189	7.56%
Tot. Grants & Benefits	\$9,108,141	\$10,386,653	\$10,882,682	6.11%

The grants and benefits programs are described below:

West Yellowstone: Social services are provided to West Yellowstone where there is no full-time department employee. General fund of \$5,362 per year is maintained at the fiscal 1990 appropriated level. A local match of \$1,788 does not require an appropriation and is not included in the 1993 biennium budget.

Home Health: General fund of \$15,000 per year provides homemaker services to Lewis and Clark County. The county provides a \$15,000 match.

Child Abuse: Funds are used to contract for education and information dissemination about physical and sexual abuse of children. Anticipated federal funds of \$128,400 per year are used to fund: 1) administrative costs of \$15,809 in fiscal 1992 and \$15,893 in fiscal 1993; and 2) contracted services of \$112,591 in fiscal 1992 and \$112,507 in fiscal 1993.

Domestic Violence: Services provided through contracts with local agencies include safe homes, a 24-hour crisis line, and public awareness and education programs. Annual funding is: 1)

\$135,000 general fund; 2) federal grants of \$50,000; and 3) \$35,000 from one percent of the fines and forfeitures collected in Justice Court and 50 percent of fines imposed for domestic abuse. Annual administrative costs are \$412.

Refugee: Federal funds of \$150,000 per year provide services to Indo-Chinese refugees, including services for unaccompanied minors provided by Lutheran Social Services.

Day-care: Protective services provided to youth and adults identified as abused or neglected are provided in family or group homes or day-care centers. Based on client eligibility, funding is either 100 percent general fund, 100 percent federal funds for refugee clients, or general fund with federal IV-A funding at the medicaid reimbursement rate for all AFDC eligible clients. Total funding of \$726,585 per year is equal to that appropriated in fiscal 1991 and includes: 1) general fund of \$397,072; 2) federal grants of \$50,000; and 3) federal matching funds of \$279,513 (see "Day-care Licensing" issue).

Aging Services: Services designed to enable older Americans to maintain an independent lifestyle and avoid

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unnecessary institutional care are provided through contracts with 11 regional Area Agencies on Aging (AAAs). Services include legal advocacy, congregate and home meals, and information and referral services. Total grants of \$4,727,136 in fiscal 1992 and \$4,737,636 in fiscal 1993 are: 1) general fund of \$640,620 in fiscal 1992 and \$643,246 in fiscal 1993 for the state match, information/referral services, and in-home services; and 2) federal funds of \$4,086,516 in fiscal 1992 and \$4,094,390 in fiscal 1993. In addition to the grants, \$25,411 in fiscal 1992 (including \$5,857 general fund) and \$14,911 in fiscal 1993 (including \$3,321 general fund) was transferred to the Aging Bureau in Management Services for contracted services and equipment.

Children's Trust: Services and activities operated by non-profit private or public community-based educational and service organizations are aimed at the prevention of child abuse and neglect. The Children's Trust Fund Board allocates funds and monitors contract performance. Funding of \$66,340 in fiscal 1992 and \$66,344 in fiscal 1993 provides: 1) grants of \$61,141 each year; and 2) administrative expenses of \$5,199 in fiscal 1992 and \$5,203 in fiscal 1993. Funding is: 1) \$5 of the \$100 marriage dissolution fee; 2) tax write-off contributions; and 3) other donations.

Post Adoption: The Post-Adoption Center, begun by budget amendment during the 1989 biennium, is funded by a federal grant to develop an inter-organizational network of service providers. Anticipated funds of \$97,518 in fiscal 1992 and \$24,378 in fiscal 1993 are included in the current level budget because the 1989 legislature continued this program for fiscal 1990, and new awards have been made for the 1993 biennium. This program is budgeted as a modified request in the Executive Budget because the fiscal 1991 base did not include a legislative appropriation.

Subsidized Adoption: This program assists families in adopting sibling groups or children with special needs such as physical or mental handicaps.

The subsidy paid to each family varies according to the severity of the disability and the financial resources of the family. If the child is eligible for federal IV-E participation, funding is shared at the federal medicaid matching rate. Otherwise, the cost is 100 percent general fund. Funding is equal to the actual fiscal 1990 general fund of \$122,859 and federal funds of \$153,128. The number of subsidized clients has increased from 88 in fiscal 1988 to 117 in fiscal 1990.

Big Brothers and Sisters: Supplementary general fund of \$165,000 per year is provided to county Big Brothers and Sisters programs to provide services to youth in need of an adult role model.

Alcohol & Drug Treatment: This program provides residential alcohol and drug treatment for eligible indigent youth. A youth must meet AFDC income standards, be an adjudicated delinquent, be determined by a certified alcohol counselor as in need of treatment, and be placed in a treatment program approved by the Department of Institutions. DFS reimburses treatment providers \$110 per day for a maximum of 40 days per youth. The current level budget is general fund of \$205,000 each year of the 1993 biennium.

Supplemental Security Income (SSI): SSI is a general fund supplementary income to normal federal SSI payments provided to recipients residing in certain licensed facilities. This payment is to help residents remain in the least restrictive environment possible. Payment is based on the recipient's type of community residence, ranging from \$26 per month for developmental disabilities semi-independent living homes to \$94 per month for personal care homes. Funding of \$914,954 for each year of the biennium is set at the fiscal 1990 actual level of \$855,000 plus \$59,954 for annual payments to residents of the new Specialized Service and Support Organization (SSSO) approved by the 1989 legislature.

Foster Care: Through contracts with providers, foster care provides a continuum of protective services and treatment for youth (see "Continuum of

COMMUNITY SERVICES

Service" issue). The current level budget assumes that: 1) the caseload will continue to increase by six percent per year (see "Foster Care Increases" issue); 2) the needed services will be proportional to the projected fiscal 1991 needs; and 3) the provider rate increases at 100 percent of the model rate structure will be continued in the 1993 biennium. Based on these assumptions, foster care funding increases from \$9.9 million in fiscal 1990 to \$12.5 million in fiscal 1993. The department actually served 3,121 youths in fiscal 1990, while the fiscal 1990 budget assumed that only 2,918 youths would be served. To fund this additional service, \$200,000 of fiscal 1991 authority was expended in fiscal 1990. The program is requesting a \$968,773 supplemental appropriation in fiscal 1991 for foster care costs.

Federal funds exceeding \$3 million per year include: 1) IV-E funding of \$2.79 million in fiscal 1992 and \$2.96 million in fiscal 1993, which is 26.6 percent of the total budget less costs of youth court placement; and 2) \$290,151 per year of other federal funds. County reimbursements are set at the fiscal 1990 actual rate of \$1,008,913 per year, rather than at the \$1,139,650 ceiling amount approved when DFS was created (Section 41-3-1122, MCA) because caps at individual county levels limit revenues to less than the maximum amount. General fund provides the balance of the funding.

Independent Living: The independent living project assists IV-E foster children in making the transition from foster care to independent living. Anticipated federal funds decrease from \$188,349 in fiscal 1990 to \$174,421 in each year of the 1993 biennium. These funds provide: 1) benefits of \$134,839 in fiscal 1992 and \$134,749 in fiscal 1993; and 2) administrative costs of \$39,582 in fiscal 1992 and \$39,672 in fiscal 1993. The LFA current level budget is an annualized amount based on quarterly grant awards.

Issues

Day-care Licensing

The 1989 legislature approved expenditure of general fund for 1.88 FTE day-care licensing personnel in fiscal 1990 and 2.5 FTE in 1991 and required that federal funds, which might become available for this program, replace general fund to the fullest extent possible. The federal grant was actually received late in fiscal 1990, and the department expects to revert \$32,084 of the \$66,113 general fund appropriation for fiscal 1991. The current level budget for the 1993 biennium includes 2.5 FTE day-care licensing personnel who, like all other regional staff, are funded with approximately 15.9 percent federal funds. The current level budget does not anticipate renewal of this grant. The legislature may wish to approve language to require reversion of general fund to the fullest extent possible if additional federal funds for day-care licensing become available in the 1993 biennium.

Continuum of Service

The department has prepared a report in response to the 1989 legislative requirement that a plan for the implementation of a continuum of youth services be presented to the 1991 legislature. As partial implementation of that plan, the Executive Budget requests transfer of approximately \$5.0 million in general fund medicaid match from the Department of Social and Rehabilitation Services (SRS) for the biennium. Projected savings in these funds, which are used as the state medicaid match for youth psychiatric programs, would be used by the department to develop a continuum of psychiatric services for youth, including community based alternatives to in-patient care. The Executive Budget also requests an additional \$3.5 million in general fund for the biennium for residential youth psychiatric care (Executive Budget Modifications below).

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Foster Care Increases

A "Foster Care" report issued by the Legislative Fiscal Analyst in April 1990, indicated that: 1) foster care caseloads increased by 6 percent per year from fiscal 1985 through fiscal 1989; 2) more children with more severe problems were entering foster care; and 3) Indian children comprised an increasing proportion of the population. Actual fiscal 1990 and preliminary fiscal 1991 data indicate that the 6 percent annual increases are continuing. Therefore, the current level budget of \$11.9 million in fiscal 1992 and \$12.5 million in fiscal 1993 increases 6 percent annually from the fiscal 1991 appropriated level. The current level is based on payments to providers at 100 percent of the model rate structure approved by the 1989 legislature and it assumes payments for a mix of services similar to that provided in fiscal 1991. The current level budget increases are adjustments for caseload increases only and do not reflect any increases for: 1) a greater continuum of care; 2) increased residential psychiatric services; or 3) increased services to Indian children. The Executive Budget includes requests for funds to provide these additional services (see "Continuum of Service" above and Executive Budget Modifications below). Neither the LFA current level budget nor the Executive Budget includes provider rate increases.

DD Community Services

An Interagency Task Force was formed by the Governor in 1989 to: 1) develop a plan to improve the delivery of services to the developmentally disabled; and 2) achieve recertification of the Montana Developmental Center (MDC). The task force's "Action Plan for the Modification of the Montana Developmental Disabilities Service System" was composed of four phases. Phase I, scheduled from November 1, 1989 to April 1, 1990, accomplished three main objectives: 1) staff enhancement at MDC to meet medicaid certification requirements; 2) community placements for six MDC residents who had sued for placement in less restrictive environments; and 3) a long-range plan

for modification of the Montana developmental disabilities service system. Phase II, scheduled from April to October 1990, had two primary objectives: 1) placement of 18 additional developmentally disabled residents in three group homes; and 2) incorporation of the long-range planning process into the executive planning process for the 1993 biennium. The main objective of Phase III, scheduled from November 1990 through June 1991, is the development of the specialized service and support organization (SSSO) authorized and funded by the 1989 legislature. The SSSO provides community based intensive group homes for 52 individuals from MDC, Eastmont, and community waiting lists. Phase IV, a detailed service and funding plan for the 1993 biennium, proposes moving additional residents from MDC into community group homes and proposes changes in the budgets and programs of the Departments of Institutions, SRS, and DFS.

The task force's plan proposes changes in five areas of the DFS Community Services program: 1) Montana's state supplement to federal SSI; 2) provision of services to children who are difficult to place; 3) case management; 4) case manager training; and 5) licensing of community or group homes. DFS and SRS are requesting modifications to address the proposed changes. The related issues are discussed in the SRS "Issues" section.

Executive Budget Modifications

Phase I & II Supplemental Income

State supplemental income is a monthly supplement to federal supplemental security income (SSI) to enable eligible clients to live in less restrictive environments than would otherwise be possible. The Executive Budget includes general fund of \$27,072 each year for state supplemental payments to approximately 24 developmentally disabled SSI recipients who were moved from MDC into community homes during the 1991 biennium (phases I and II of the "Action Plan for the Modification of the

COMMUNITY SERVICES

Montana Developmental Disabilities Service System"). Expenditures for supplemental income were absorbed within the department's current level appropriation for the 1991 biennium as clients were moved from MDC. Since these clients will now be served in the community for the full biennium, a general fund supplemental income appropriation of \$94 per month for each client is requested.

Phase IV Supplemental Income

The Executive Budget includes \$19,740 in fiscal 1992 and \$53,580 in fiscal 1993 for state supplemental income payments for developmentally disabled federal SSI recipients who will move from MDC or waiting lists into community homes during the 1993 biennium (phase IV of the "Action Plan for the Modification of the Montana Developmental Disabilities Service System"). The department anticipates that: 1) 30 additional clients will require SSI for seven months in fiscal 1992 and 12 months in fiscal 1993; and 2) 30 additional clients will require SSI for seven months in fiscal 1993. The department requests a general fund supplemental income appropriation of \$94 per month for each of these clients as they are placed in the community.

Phase IV Child Placement

During fiscal 1992, the department, in cooperation with SRS, intends to provide community services for five developmentally disabled children who need intensive services and are difficult to place. An additional five children will be placed in fiscal 1993. Eligible children include those who currently receive foster care services, but the department has not reduced its foster care request because it expects an increase in the numbers of developmentally disabled children served during the 1993 biennium. Eligible children currently include nine who have been placed out-of-state at costs ranging from \$53 per day at Excelsior in Spokane to \$280 per day at Pines Home in Virginia. One eligible child is currently at MDC, but MDC's revised role in Montana's developmental disabilities service system is not well suited to

children. Therefore, the Executive Budget includes \$82 per day per child or \$150,000 in fiscal 1992 and \$300,000 in fiscal 1993 for in-state community services for these children. Federal Title XIX medicaid funds will provide an estimated 71.7 percent of the cost, with general fund providing the remaining 28.3 percent. Table 4 shows the estimated funding for each fiscal year.

Table 4
Phase IV Child Placement
Fiscal 1992-1993

<u>Item</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
Children	5	10
Gen. Fund	\$ 42,435	\$ 84,300
Fed. Funds	<u>107,565</u>	<u>215,700</u>
Total	\$150,000	\$300,000

MDC Phase IV Case Management

The Executive Budget includes \$165,242 for the biennium for case management services to 114 additional developmentally disabled clients who will be in community services in the 1993 biennium. Fifty-four clients will be moved from MDC to community services during the 1991 biennium, 30 will be moved during the 1993 biennium, and an additional 30 will come from waiting lists of those needing intensive levels of service. This modification includes general fund of \$9,500 per year for specialized training for case managers. The remaining \$73,100 for each year is for 2.75 FTE and case management expenses. Table 5 shows this modified budget request by fiscal year. The funding sources for this request are: 1) \$9,500 general fund for the training funds; and 2) 28.3 percent general fund and 71.7 percent federal Title XIX funds for the personal services and operations.

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Table 5
Case Management Services
Fiscal 1992-1993

<u>Item</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
FTE	2.75	2.75
Pers. Serv.	\$70,879	\$70,716
Operating	8,861	11,898
Equipment	<u>2,888</u>	<u>0</u>
Total	<u>\$82,628</u>	<u>\$82,614</u>
Gen. Fund	\$30,182	\$30,182
Fed. Funds	<u>52,446</u>	<u>52,432</u>
Total	<u>\$82,628</u>	<u>\$82,614</u>

Staff Increases

The regional staff, which totalled 315.83 FTE in fiscal 1990, provides social services to children, adults, and senior citizens. The number of children in foster care increased from 2,390 in fiscal 1985 to 2,969 in fiscal 1989. Adult protective services received an estimated 1,000 new clients in fiscal 1989 and served a total of 3,224 clients during that year. The Executive Budget includes 8.0 additional FTE social workers to respond to this increasing demand for services. General fund costs of \$237,082 in fiscal 1992 and \$228,480 in fiscal 1993 will be supplemented by federal funds of \$41,838 and \$40,320 in respective years for a total biennial cost of \$547,720.

Residential Psychiatric Services

The Executive Budget includes 1.0 FTE each year and general fund of \$3,536,426 for the biennium to provide residential psychiatric treatment to children and adolescents. House Bill 304, enacted by the 1989 legislature as a pilot program, authorized medicaid funding for residential psychiatric treatment during the 1991 biennium. Federal medicaid funding was appropriated to SRS to be matched by foster care monies appropriated to DFS. This modification would provide state match for the

federal medicaid funds requested by SRS to continue and expand residential psychiatric treatment during the 1993 biennium.

Field Equipment

The Executive Budget includes general fund of \$20,000 each year for locking file cabinets, desks, and chairs for the regional offices. A June 1990 legislative audit report recommended that the department prioritize equipment needs and purchase locking filing cabinets for the storage of confidential case files. The report stated that file confidentiality has not been maintained because: 1) security has been inadequate; and 2) budget restraints have prevented the purchase of adequate locking files. This request would allow the purchase of four files and two desks and chairs for each region each year.

Child Justice Act

The Executive Budget includes federal spending authority for \$37,466 each year to comply with the federal Children's Justice Act. These funds are for continued training and technical assistance to all persons, including department social workers responsible for investigation, administration, prosecution, or case management of child sexual abuse. This program, begun in fiscal 1989, lapsed during that year due to lack of federal funds. When additional federal funds became available, the department received budget amendments for fiscal 1990 and 1991 to continue the program. This modification requests spending authority for the program for the 1993 biennium. Since funds were appropriated for this program in fiscal 1990, the program is included in the LFA current level budget.

Post Adoption Center

The Executive Budget includes federal spending authority of \$97,518 in fiscal 1992 and \$24,378 in fiscal 1993 for the Adoptive Family Preservation Project. The project's goal is to develop an inter-organizational network of service providers coordinated through the private, non-profit Montana Post

COMMUNITY SERVICES

Adoption Center, Inc. The contracts with the center to act as facilitator, coordinator, and clearinghouse for a statewide post-adoption service delivery system are expected to continue through the 1993 biennium. A required non-federal match will be provided by: 1) dedication of a portion of current level salaries for a state program officer and a field staff family resource specialist; and 2) donations and fees provided to the contractor. Since funds were appropriated to the Post Adoption Center in fiscal 1990, the program is included in the LFA current level budget.

Native American Services

Title IV-E requires each state to provide foster care services to all

eligible children, including Native American children on reservations. Since the department anticipates serving an additional 250 Native American children in the 1993 biennium, the Executive Budget includes an additional \$1,985,600 for this service. DFS is negotiating agreements for service with each tribe in compliance with Title 18, Chapter 11, MCA. Funding is at the estimated medicaid matching rate of 28.3 percent general fund and 71.7 percent federal revenue. This increase in Native American children served is not included in the increased caseload estimated in the LFA current level budget.

MOUNTAIN VIEW

<u>Budget Item</u>	Actual Fiscal 1990	Appropriated Fiscal 1991	- - Current Fiscal 1992	Level - - Fiscal 1993	Change 1991-93 Biennium
FTE	65.77	65.77	65.77	65.77	.00
Personal Services	1,564,214	1,745,212	1,770,195	1,771,955	7.03%
Operating Expenses	310,746	309,072	322,372	329,150	5.12%
Equipment	<u>5,223</u>	<u>13,736</u>	<u>13,736</u>	<u>2,714</u>	<u>-13.23%</u>
Total Program	\$1,880,183	\$2,068,020	\$2,106,303	\$2,103,819	6.63%
<u>Fund Sources</u>					
General Fund	1,787,642	1,971,252	1,994,031	1,991,491	6.03%
State Revenue Fund	2,076	3,213	3,180	3,180	20.25%
Federal Revenue Fund	<u>90,465</u>	<u>93,555</u>	<u>109,092</u>	<u>109,148</u>	<u>18.60%</u>
Total Funds	\$1,880,183	\$2,068,020	\$2,106,303	\$2,103,819	6.63%

Program Description

Mountain View School in Helena, authorized in Section 53-30-202, MCA, provides diagnosis, care, education, and rehabilitation for juvenile girls between the ages of 10 and 21 years who have been committed by the courts. Each youth receives diagnostic and treatment services and an individualized education program. The school also provides evaluations for girls referred by the youth courts. The average daily population (ADP) of 52.31 in fiscal 1990 has been continued for the 1993 biennium.

Current Level Budget

The school's current level budget increases 6.6 percent due to higher personal services and operating expenses. Personal services increase 7.0 percent because: 1) the current level includes teacher's aides who were moved from the state pay plan to the state teacher pay plan, resulting in annual increases in personal services and federal funds of approximately \$18,600; 2) vacancy savings realized in fiscal 1990 are not budgeted in the 1993 biennium; and 3) the fiscal 1991 pay increase is continued in the 1993 biennium. Operating expenses increase 5.1 percent because the current level budget includes: 1) inflationary increases in food and utilities; and 2)

a \$10,000 supplemental appropriation for medical services in fiscal 1990 which is not reflected in the fiscal 1991 appropriation. Funding for equipment will provide for the top three agency priorities, including a mid-sized sedan in fiscal 1992. This is a 20 percent increase over the 1991 biennium appropriation because no funds for equipment were appropriated in fiscal 1990, although \$5,223 was expended.

Funding is primarily from the general fund. State special revenue consists of canteen funds of \$3,000 and donations of \$180 each year. Annual federal revenue is: 1) school foods of \$42,705 from the Department of Education; 2) Chapter I funds of approximately \$47,800; and 3) federal boarder reimbursements of \$18,560. Federal revenue increases 18.6 percent because anticipated Chapter I revenues are higher than the \$29,200 actually received in fiscal 1990.

Executive Budget Modification

Mountain View Staff Increases

The Executive Budget includes an additional 1.36 FTE and general fund of \$69,930 for the biennium to provide increased services to residents of Mountain View School. The additional FTE are: 1) 1.0 FTE cottage life attendant to increase cottage staffing; and 2) 0.36 FTE foreign language teacher to meet school accreditation standards.

PINE HILLS

<u>Budget Item</u>	<u>Actual Fiscal 1990</u>	<u>Appropriated Fiscal 1991</u>	<u>- - Current Fiscal 1992</u>	<u>Level - - Fiscal 1993</u>	<u>Change 1991-93 Biennium</u>
FTE	118.77	118.77	115.77	115.77	-3.00
Personal Services	2,904,241	3,175,752	3,108,760	3,112,001	2.32%
Operating Expenses	703,413	659,269	724,305	740,270	7.48%
Equipment	<u>15,743</u>	<u>10,215</u>	<u>10,215</u>	<u>12,015</u>	<u>-14.36%</u>
Total Program	\$3,623,397	\$3,845,236	\$3,843,280	\$3,864,286	3.20%
<u>Fund Sources</u>					
General Fund	3,033,439	3,229,305	3,211,739	3,225,905	2.79%
State Revenue Fund	313,858	325,549	323,000	330,000	2.13%
Federal Revenue Fund	<u>276,100</u>	<u>290,382</u>	<u>308,541</u>	<u>308,381</u>	<u>8.90%</u>
Total Funds	\$3,623,397	\$3,845,236	\$3,843,280	\$3,864,286	3.20%

Program Description

Pine Hills School in Miles City, authorized in Section 53-30-202, MCA, provides diagnosis, care, education, and rehabilitation for juvenile boys between the ages of 10 and 21 years who have been committed by the courts. Each youth is provided with diagnostic and treatment services and an individualized education program. The school also provides evaluations for boys referred by the youth court. The average daily population of 121.49 in fiscal 1990 has been continued for the 1993 biennium.

Current Level Budget

The school's current level budget increases 3.2 percent due to higher personal services and operating expenses.

FTE decrease because: 1) 1.0 FTE chemical dependency counselor was eliminated in fiscal 1990 and the funds were used to contract for alcohol counseling services; and 2) 1.0 FTE accounting clerk and 1.0 FTE maintenance worker were eliminated because they were vacant more than six months. Personal services increase 2.3 percent because: 1) vacancy savings realized in fiscal 1990 are not budgeted in the 1993 biennium; and 2) the fiscal 1991 pay plan increase is continued in the 1993 biennium.

Operating expenses increase 7.5 percent due to: 1) an annual increase in contracted services of \$27,000 for an alcohol counseling contract, which is not reflected in the fiscal 1991 appropriation; 2) inflationary increases in food, supplies, and utilities of approximately \$24,000 in fiscal 1992 and \$36,000 in fiscal 1993; 3) decreases of \$15,000 per year for insurance paid from the Pine Hills budget in fiscal 1990 that is budgeted in the Management Support program for the 1993 biennium; and 4) an annual increase of \$34,500 for supplemental appropriations for medical services, which is not reflected in the fiscal 1991 appropriation. Equipment is funded at the agency's request.

Funding is primarily general fund, which increases 2.8 percent over the 1991 biennium. State special revenues each year are: 1) alcohol tax of \$27,000 for a chemical dependency contract; 2) canteen funds of \$20,000; 3) and interest and income of \$276,000 in fiscal 1992 and \$283,000 in fiscal 1993. Federal revenues each year include: 1) school foods of \$110,868 from the Department of Education; 2) Chapter I funds of approximately \$109,600; and 3) federal boarder reimbursements totalling \$88,000. Boarder reimbursements have increased because funds actually received in fiscal 1990 were approximately \$20,000 higher than expenditures.

PINE HILLS

Executive Budget Modifications

Pine Hills Industries

The Executive Budget includes \$12,000 in state special revenue for the 1993 biennium to establish an Industries program at Pine Hills. As a section of the Vocational Education program, this program would allow students to learn drafting, welding, and woodworking. Revenue would be generated by sales of products such as picnic tables.

Cottage Life Attendants

The Executive Budget requests 3.0 FTE cottage life attendants at a general fund cost of \$125,919 for the biennium.

These FTE would provide additional supervision and security during regular work hours, particularly in the more secure lodges where the high risk population has been increasing. The facility is rated as a 100-bed facility with a maximum capacity of 120 residents. Since the average daily population exceeds maximum capacity, residents are being housed in program areas. The department estimates that a reduced referral rate and a shorter length of stay will mitigate overcrowding. However, the department estimates that the remaining population will be higher risk and will require more security to prevent violence and escapes.

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